The Incorporated Accountants' Journal

The Official Organ of
The Society of Incorporated Accountants and Auditors

THE INCORPORATED ACCOUNTANTS' JOURNAL *is published monthly, on the first day of each month, at an Annual Subscription of* 12s. 6d., *which includes postage to all parts of the world. The price of a single copy is* 1s. 3d., *postage extra.*

Communications respecting the general business of the paper to be addressed to the Secretary of the Society of Incorporated Accountants and Auditors, Incorporated Accountants' Hall, Victoria Embankment, London, W.C.2. Cheques and postal orders should be made payable to the Society, and crossed "Bank of England."

Letters for the Editors to be forwarded to them, care of the Secretary, as above. Correspondence, copies of reports and accounts, &c., will be welcomed from the profession.

Vol. XLIII — OCTOBER, 1931 — No. 1

Contents.

Professional Notes.

THIS issue marks the opening of the forty-third annual volume of the *Incorporated Accountants' Journal*. While preserving all the features which have made the official organ of the Society of Incorporated Accountants and Auditors a popular means of professional communication, opportunity has been taken for an enlargement of the size of the pages and for a re-arrangement of the type so as to bring the make-up of the publication more in accord with present day requirements. We hope that the alterations will be both popular and convenient, and will add to the prestige of the *Journal*.

Last month we briefly noticed the formation of the National Government for the United Kingdom. Events since have followed one another with startling rapidity. A new Finance Bill and a National Economy Bill for the purpose of balancing the Budget, and a Gold Standard Amendment Bill relieving the Bank of England from its obligation to sell gold at a fixed price, have all been submitted to Parliament, and the last-named has already been passed into law. The Government have also set up a Cabinet Committee to consider the measures necessary to restore the balance of trade. Altogether, great progress has been made for placing the finances and trade of Great Britain and Northern Ireland on a sound and satisfactory footing.

There has been published throughout the Press a spirited letter addressed to Sir John Simon by Mr. Thomas Keens, ex-President of the Society and formerly Liberal M.P. for Aylesbury. Following our well-established practice, we will not reproduce the arguments of Mr. Keens, to which wide publicity has already been given. We need only say that, in the course of his reply, Sir John Simon sends Mr. Keens his heartiest good wishes, and expresses the hope that he will decide to resume his Parliamentary activities.

Most of our readers will no doubt recollect the important case of *Ultramares Corporation* v. *George A. Touche and Others*, which was tried recently in the American Courts and fully reported in our issue of August, 1930. The point involved was the question of the liability of accountants to third parties, and the Court decided that negligence alone was not sufficient to establish such liability, but added that their finding did not emancipate accountants from the consequences of fraud. On this point a new trial was granted. We understand now, however, that the hearing of the case will not proceed, as it has been settled out of Court.

In commenting upon the matter, the New York *Journal of Accountancy* says: "It is regrettable

that the case was not carried through the process of adjudication without external settlement. As the matter stands at present there is grave doubt in the minds of a great many people as to what the Court of Appeals really meant. If our interpretation is correct, the Court of Appeals was evidently trying to encourage a course of action which would bring about a definite adjudication on the question of fraud to supplement the decision which had been rendered on the question of liability to third parties even in case of gross negligence. However, the withdrawal of litigation prevented the accomplishment of that purpose, and in the meantime every professional man is left in suspense lest by some perfectly innocent error of judgment he be made the object of an action for fraud."

We publish this month the provisions of the Finance (No. 2) Bill in so far as it relates to Income Tax and the 5 per cent. War Loan, but at the time of going to press the Bill has not been through the Committee stage. It is unlikely, however, that any substantial amendments will be made. The provisions for giving effect to the change in the standard rate of Income Tax for the year 1931-32 will be found in the third schedule, and the amendments with regard to Income Tax reliefs and allowances in the fourth schedule. It will be observed that there is no reference in that schedule to the additional allowance of 10 per cent. for wear and tear, which Mr. Snowden promised in his Budget speech. The reason for this is that it will not take effect until the year 1932-33, and will therefore be dealt with in the Finance Bill for that year. Seeing that the standard rate of Income Tax is being increased for the year 1931-32, taxpayers will no doubt consider that they have a substantial grievance in not getting for the year now current the extra allowance which the Chancellor of the Exchequer stated in his speech would roughly make good to industry the additional sixpence on the standard rate.

A good deal of uncertainty seems to have arisen, in connection with the alteration of the rate of income tax, as to the deductions of tax which should be made in paying dividends. Numerous questions have been put and answered in the House of Commons. Some of these will be found set forth in another column, but the position generally is that, as the new rate of tax operates from April 5th last, any dividend paid since that date under deduction of tax at the 4s. 6d. rate has to be adjusted when making the next distribution. This applies up to October 15th, after which date companies are presumed to have had sufficient notice to enable them to deduct tax at the new rate of 5s. In the case of dividends on ordinary shares, it is, of course, open to companies to adjust the deductions or not, as they may deem expedient, but as they will have to pay the higher rate of tax as from April 5th they will no doubt wish to deduct the corresponding rate from their shareholders.

The raising of the rate of income tax has again brought into prominence the vexed question of the taxation of co-operative societies. In this connection a letter has been addressed to the Prime Minister and the Chancellor of the Exchequer by the Secretary of the National Chamber of Trade. Various reasons are adduced as to why co-operative societies should be treated in the same way as other trading organisations. For instance, it is pointed out that the extension of co-operative society trading throughout the country has involved the acquisition of businesses which have hitherto been subject to full assessment, but will no longer be so under the auspices of co-operative societies; and again, it is argued that the "mutuality," which in the earlier days of the co-operative movement was a main reason for the different treatment of those societies, no longer exists, having regard to the vast amount of business done outside their membership.

Another complaint is that while these societies are not subjected to taxation in the same way as other trading concerns, they are, nevertheless, entitled to tender for and obtain substantial contracts in competition with other contractors who have to bear a heavy rate of income tax. The co-operative bodies are thus placed in a preferential position, and it is accordingly urged that the needs of the present moment furnish a unique opportunity for rectifying a glaring anomaly.

In relation to the affairs of the *Latchford Premier Cinema*, an interesting point arose with regard to the resignation of directors. Certain of the directors had tendered verbal resignations, which were accepted by the company in general meeting, and the question was whether the office of director could be vacated other than by a notice in writing, seeing that the Articles of the company contained a provision that a director could vacate his office by notice in writing. The directors claimed that, notwithstanding

the verbal resignations, they were still directors, as the company could not act in contravention of its own Articles; but Mr. Justice Bennett, in delivering judgment, said there was no reason in law why a contract of service between the company and its directors should not be terminated in the same way as contracts of service between individuals, and he considered that the stipulation with regard to the written notice might be waived by mutual agreement.

In another case (*Glossop* v. *Glossop*) the Court held that a director's resignation depended upon his notice and not upon its acceptance by the company, because the company was not in a position to refuse acceptance. The position, therefore, appears to be that where the Articles contain a clause similar to Clause 72 of Table A, which provides that the office of director shall be vacated if the director resigns by notice in writing, then a written resignation is at once effective and cannot be withdrawn because the company cannot refuse acceptance. On the other hand, a verbal resignation may be accepted by the company verbally, the company thus waiving its right to a written notice. Threats of resignation by directors at company meetings may thus be somewhat dangerous.

A clear indication of the extent to which a loss of trade is being suffered by the United States of America is contained in the official figures recently issued. The Department of Commerce of the United States reports that the value of exports in the past financial year fell by about £600,000,000, and the value of imports by nearly £500,000,000, which represented losses of 34 and 37 per cent., respectively. The decline was partly accounted for by falling prices, but the actual volume of exports decreased by 22 per cent. and the volume of imports by 17 per cent. compared with the preceding year. The excess of exports amounted to about £130,000,000, as against an excess of about £169,000,000 in 1929-30, and an average of about £146,000,000 in the preceding five years.

The report of the Chief Registrar of Friendly Societies for 1929, from which we publish extracts in another column, states that cases continue to arise in which losses are directly attributable to incompetence of unqualified auditors. In one case a loss of about £5,000 occurred owing to the failure of the auditors to obtain a certificate from the bank verifying the amount in the society's account. In another case the treasurer had sole control of all cash and cheques received, and although he was required by the society's rules to keep a book containing an account of all moneys received and paid, no such book was kept, and the auditors did not call for its production. The report of the professional accountants who were called in to investigate the affairs of another society contains the following observations:—

> "We are of opinion that the auditors who had been appointed year by year were not capable of performing the work, as they appear to have no idea of the duties of an auditor. From what could be ascertained they were only concerned with the totalling of various columns of figures. No previous balance sheet or starting figures were taken into consideration, neither was the bank book examined."

The view of an audit which this discloses is typical of the mentality of unqualified auditors.

A number of other cases of dereliction of duty are reported, and a summary of cases of deficiency which came to the notice of the Registrar during the year contains a list in which no less than 50 societies are concerned, involving losses of various amounts. Surely it is time that some steps were taken to put a stop to this deplorable state of affairs.

We have now before us Part I of the Registrar's report for the year 1930, in which there is a paragraph on the subject of Registration of Accountants. After referring to the decision of the Departmental Committee of the Board of Trade to the effect that they were of opinion that registration was not desirable, the Registrar points out that under a regulation made by the Treasury in 1920, public auditors must be members of one of the Institutes of Chartered Accountants or of the Society of Incorporated Accountants and Auditors, and adds that applications for recognition have continually been made by Associations whose members are not eligible for appointment under this regulation. To this he adds: "The needs of the situation call for no extension of the existing method of recruitment, as the Institutes and the Society referred to provide a number of applicants far in excess of requirements. It would be difficult to arrive at a satisfactory basis of comparison between those associations which are not recognised, and any improvement in their standard must make it increasingly difficult to distinguish between them."

In our correspondence columns this month will be found a letter regarding the Editorial comments in our September issue on the subject of the depreciation of plant and machinery. The writer of the letter appears to have overlooked the fact that our criticism was directed to a view that had been expressed in a financial journal that fixed assets, including land, buildings and plant, should be "valued by competent professionals every time the accounts are made up," the valuation "to be expressed in approximately realisable terms," and we do not see that the letter is an answer to that criticism. As regards our correspondents' contention that the provision of depreciation year by year on the basis of replacement value "fails lamentably when put into practice," we are quite unconvinced.

The instance of obsolescence is cited, but this is quite a separate proposition, and requires separate treatment if not adequately anticipated in the replacement provision. In any event a valuation on the basis of sale price will not solve the problem. It is entirely fallacious to look at fixed assets from the point of view of their realisable value, because they are acquired for the purpose of carrying on the business, and must be treated on the basis of a live undertaking and not in anticipation of a liquidation. The fact that one machine of a given type may last longer than another does not prevent the average life of the machines of that type or class being estimated, and the further instance which is mentioned of machines being bought second-hand at less than their real value does not prevent a provision on the basis of replacement value from operating quite fairly. If a valuation should be made of such machinery and it is found to be worth considerably more than cost, surely it is not suggested that the book value should be written up. After all, the price which has been paid is the cost price to the particular undertaking.

We have never suggested that a valuation by professionals may not be advisable and expedient for certain purposes and at certain times, but we do contend that an annual valuation is unnecessary, and will not produce a more equitable result than a provision for depreciation year by year on the basis of replacement value, it being assumed always that in arriving at the rate of depreciation to be applied, all the circumstances of the case are taken into consideration.

DEFAULTING PARTY'S RIGHTS IN BREACH OF CONTRACT.

WHERE a party to a contract has suffered loss by reason of the default of the other party the law recognises his right to be compensated. The law does not, however, permit him to sit down under his loss and rest content with the compensation payable to him by reason of the default. He is under a legal obligation to bestir himself so as to minimise the loss and the consequent claim to compensation.

For instance, a servant wrongfully dismissed from his employment must exert himself to secure alternative employment as soon as possible; he is not entitled to remain idle even during the period for which his employer ought to have given him notice to determine his service. Thus, A is employed by B upon terms which include three months' notice to be given by B if he should desire to dismiss A. If B wrongfully dismisses A without notice, A will, *prima facie*, be entitled to compensation in a sum equal to that which he would have earned during the three months had he been permitted to "work out" his notice. He must not, however, wait until the expiration of the three months before seeking alternative employment. Any sum he may earn by securing such alternative employment may be deducted from the amount of compensation otherwise payable. In other words, the real loss suffered by the party in default is taken as the basis of assessment; and a real loss is not suffered, in the contemplation of the law, unless he conducts himself reasonably. Reasonable conduct by a party not in default includes reasonable efforts to minimise the loss occasioned by the misconduct of the party who is in default.

This important principle in commercial law is most clearly seen in connection with the sale of goods. The Sale of Goods Act, 1893, lays down two rules, in sect. 50, bearing upon this matter:

First, it is there stated that the measure of damages payable to a seller by a buyer who has wrongfully failed to take and pay for delivery is "the estimated loss directly and naturally resulting, in the ordinary course of events, from the buyer's breach of contract."

Secondly, "where there is an available market for the goods in question the measure of damages is, *prima facie*, to be ascertained by the difference between the contract price and the market or current price at the time or times when the goods ought to have been accepted, or, if no time was

fixed for acceptance, then at the time of refusal to accept."

Further, sect. 51 of the Act lays down corresponding principles to apply in cases where it is the seller who is in default. In short, a seller who has been disappointed by his buyer must not wait until the goods go stale on his hands; he must go into the market and obtain an alternative buyer on the best terms he can. Likewise, a buyer who has been disappointed by his seller must endeavour to obtain supplies elsewhere as best he can. These rules have been illustrated in a number of interesting cases, including the following :—

In *James Finlay & Co., Limited*, v. *N. V. Kwik Hoo Tong Handel Maatschappij* (1929) the buyer under a c.i.f. contract had stipulated for shipment to take place on a specified date. The seller tendered him a bill of lading which showed that that date had been duly complied with. The buyer's sub-buyers, however, refused to accept delivery from him on the ground that the date of shipment had not been complied with and that the bill of lading was incorrect in stating that it had. The circumstances in evidence before the Court pointed to the reasonable likelihood that the buyer would have succeeded against the sub-buyers in any actions which he might have brought against them for their refusal to take delivery under their contracts. The seller was sued by the buyer, and by way of defence urged that the buyer had not done all that he reasonably might to minimise his loss; *i.e.*, he had not pursued his rights of action against his sub-buyers. The Court held that, having regard to all the circumstances, the buyer had not acted unreasonably. The sub-buyers were trading in India, and to have launched actions against them would, it was proved, have damaged the plaintiff in his relations with that market. The Court declared that a party is not so far called upon by the law to minimise his loss as to be compelled to take steps which from a prudent business point of view would be seriously detrimental to him. In other words, a party who *prima facie* ought to minimise his loss—for the benefit of the defaulting party—is entitled to take a long view of the situation. He is not bound to re-shape his whole business policy in order to accommodate the defaulting party in one particular contract.

In *Payzu Limited* v. *Saunders* (1919), also, the principle was affirmed that what steps are reasonable to be taken is a question of fact to be determined having regard to all the circumstances in each case. There the plaintiffs had agreed to buy goods from the defendants, deliveries to be made over a period of nine months, payment to be made for each delivery within one month, subject to a discount. The first delivery was duly made, but the buyers were unable to meet their obligation to pay. The sellers thereupon declined to make any further deliveries under the contract except upon a basis of cash against each delivery. This offer the buyers declined to accept; they preferred to sue the sellers for damages for failure to deliver. The market was a rising one. The Court held that the sellers were not entitled to break their contract simply because the buyers had failed to make payment for the first delivery. Nevertheless, since "in commercial contracts," as Lord Justice Scrutton said, "it is generally reasonable to accept an offer from a party in default," the buyers ought to have accepted the sellers' offer to make further deliveries for cash. The buyers had failed, therefore, to do what they reasonably might to mitigate the loss. The result was that the sellers having broken their contract they must pay damages. Since, however, the buyers for their part had also failed in their duty they were entitled to recover as damages, not the difference between the contract price and the market price, but the loss which they would have sustained had they taken all the outstanding deliveries on the due dates by paying cash.

Nickoll & Knight v. *Ashton, Eldridge & Co.* (1901) was a case arising in the following circumstances. By a contract dated October, 1899, the plaintiffs contracted to buy from the defendants a cargo of cotton seed, delivery to be made in the United Kingdom, shipment to be made at an Egyptian port during January, 1900. The defendants duly made their preparations to implement this contract. Unfortunately, the vessel chartered was so seriously damaged by perils of the sea during December, 1899, that the sellers realised that it would be quite impossible for them to make the shipment by her in January, 1900, as contracted. On December 20th, 1899, the sellers accordingly apprised the buyers of the circumstances, and intimated that the contract must be treated as broken and terminated—without their admitting that they were responsible for its breach. On that date the market price had risen above the contract price of £6 8s. 9d. per ton; it continued to rise until by January 31st, 1900, it had mounted to £7 18s. 9d. per ton. The Court held that, on being notified on December 20th, 1899, that the sellers would be unable to deliver, the buyers were not entitled to sit down and simply wait for the market to go on rising against the sellers. They could have bought an alternative cargo in the market on that date; their duty was to have done so. Hence their damages were assessable upon the

basis of the difference between contract price and market price on December 20th, 1899, and not on January 31st, 1900. In point of fact they were held unable to recover at all in the circumstances. The Court absolved the sellers from liability having regard to the circumstances attending and causing the frustration of the contract.

RELEASE OF DEBTS BY TESTATORS.

IN determining what acts, declarations, or circumstances operate to release a debt owing to a testator at the time of his death, it will be necessary to deal with the case of a testator appointing the debtor his executor, to inquire what declarations, oral or written, were made by the testator, and also to consider debts released upon conditions which have been fulfilled.

The appointment by the creditor of his debtor as executor operates as a release at law of the debt. Lord Chancellor Thurlow, in *Carey* v. *Goodinge* (1790), said he thought it had been a settled point that the appointment of the debtor as executor was no more than parting with the action, that was to say, he could not sue at law, and he was relegated to equity. In equity the appointment of the debtor was not a release. If the estate was insolvent, it was simply inoperative and had no effect at all; the debtor was treated as though he had paid himself, and he had to account for the amount of his own debt as part of the assets. When all the estate had been cleared, and it became a mere question between volunteers, there were on the one side the persons taking as beneficiaries by the testator's bounty under his will, and on the other side the executor having the legal title in the property in question, or rather, having the only means of enforcing the legal title, and there was then a question of countervailing equities. A mere intention to give, not carried out during the lifetime of the testator, would not do, because that would in effect be to allow a man to dispose after his death of his property by a document not testamentary. A mere intention to give is not enough, because an immediate gift is wanted. If there was an immediate gift, then the resulting trust for the benefit of the beneficiaries would be rebutted. The appointment of a debtor as executor of a creditor in law amounts to a release of the debt on the ground that an executor cannot sue himself. It seems to make no difference whether he is the only executor or one of several executors.

A declaration, whether oral or written, made by a testator in his lifetime of an intention to release a debt will not discharge the debt, because the transaction is incomplete, and equity has no power to assist unless there are special grounds for so doing. In *Cross* v. *Spriggs*, where a testator made repeated declarations to his wife and a solicitor's clerk that he never intended to enforce a bond given to secure a debt, as he always considered it as a gift, the bond was held not to be released. But in *Aston* v. *Pye*, where the testator had written a memorandum to the effect that "I will discharge you on condition that I am never distressed," it was held not to be a declaration of intention but to be an actual release. In this case the testator never became distressed, but died in good circumstances, and it was, therefore, held that the condition had been fulfilled and the debt released.

Apparently the mere statement by a creditor "I forgive the debt" would not operate as a release at law on the ground that it was a mere *nudum pactum*, and consequently could not be supported as a contract, not being under seal. In *Pink* v. *Pink* (1912), Cozens-Hardy (Master of the Rolls) held that a declaration by a testator in writing stating "This debt is absolutely cancelled 'from this date'" would not amount to a release in law, as there was no consideration to support it. But a voluntary declaration by a creditor that he intends to release his debtor, though not amounting to a release in law, may be held to be a release in equity on the ground of estoppel by consent, or that it would be a fraud to enforce the debt.

In *Yeomans* v. *Williams*, a mortgagee heard that his son-in-law, the mortgagor, was about to sell the property in order to pay off the debt. He wrote to the effect that the son-in-law might continue to live there without paying any rent, and it was held that the mortgagor was released from paying any interest up to the testator's death on the ground that where one man induces another to enter upon a certain course of action upon the faith of representations held out to him, he shall be compelled to make such representations good.

If a testator makes a person his residuary legatee and informs him that he has released, or wishes to release a debtor from the debt due by him to the testator, and the residuary legatee does not express dissent, this is tantamount to an undertaking by him to give effect to the testator's desire, and he will, therefore, not be allowed to enforce payment of the debt.

In *Wekett* v. *Raby*, Raby was indebted to the testator on a bond. According to Raby, the testator, in his last illness, and a few days before

his death, said to his executrix and residuary legatee, "I have Raby's bond, which I keep; I don't deliver it up, for I may live to want it more than he; but when I die he shall have it, he shall not be asked or troubled for it." It was not alleged that the residuary legatee made any answer; she simply was silent. After the testator's death, the executrix sued on the bond, but the Court ordered the bond to be delivered up to Raby and cancelled. This decision was later explained in *Byrn* v. *Godfrey*, it being said that the Court had a fair ground to conclude that the case stood according to the representation of Raby, and that being so the residuary legatee could not be permitted to benefit herself by that which was not given to her. It was very near an undertaking by her to do something if the will was not changed. Therefore, the silence was assent on the part of the residuary legatee, and an engagement which in point of conscience ought not to be broken by her.

Bombay Incorporated Accountants.

We have received the second anniversary souvenir of the Incorporated Accountants' Bombay and District Society, which was formed in 1929. It contains the annual report for 1930-31, a report of the proceedings at the second annual dinner, and two papers on Indian Income Tax, which were read before the members. The annual dinner was attended by a number of distinguished guests, some of whom are delegates to the Round Table Conference. In the unavoidable absence of the President, Mr. K. S. Aiyar, F.S.A.A., the chair was occupied by the Vice-President, Mr. S. S. Engineer, F.S.A.A. The latter, in responding to the toast of the District Society, referred in cordial terms to the action of the Parent Society in according formal recognition to the organisation as a regular District Society, and in eulogising the broad-minded policy of the Parent Society he took some credit to the members in Bombay and District for justifying the confidence which had been reposed in them by headquarters. In the course of his speech, he referred to the registration of the profession of accountants in India, and to the work of the Committee of the first Indian Accountancy Board.

At the time of the issue of the report, the total number of members on the roll of the District Society was 25, which it was expected would be increased in the near future owing to the recognition of the District Society's status by the Council of the Parent Society.

Paymaster Lieutenant-Commander E. Allison Burrows, Incorporated Accountant, Bradford, has been awarded the Royal Naval Reserve Officers' Decoration. He was one of the founders of the Students' Society which eventually developed into the present Bradford District Society of Incorporated Accountants.

THE SUPPLEMENTARY BUDGET.

CHANCELLOR'S SPEECH.

The following is the text of Mr. Snowden's Financial Statement setting forth his proposals for dealing with the estimated Budget deficits this year and next. After explaining that he estimated a deficit of £74,000,000 in the current year and £170,000,000 next year, the Chancellor continued :—

Economies.

There are two ways or a combination of two ways of balancing the Budget, one by economies and one by increased taxation—or by economies and increased taxation. Now faced with a deficit this year of £74,000,000 and a probable deficit next year of £170,000,000, it is clear, as I warned the House of Commons last February, that drastic and disagreeable measures will have to be taken. Large economies are essential and so are heavy increases of taxation. The details of the measures of economy which the Government will, to-morrow, submit to the House of Commons will be found in a White Paper which will be available in the Vote Office when I sit down. Of course, the usual White Paper appertaining to my Budget statement will also be available. I shall not, therefore, this afternoon trespass upon the Debate which will naturally take place to-morrow, to enter into any details as to the economies which are proposed. It may almost be sufficient if I say that nine-tenths of the items under which economies are proposed were adopted and approved by the late Government. (An Hon. Member : "Not by the Labour Party ! ") Hon. Members will find when they see the White Paper that there are considerable economies in the Defence Services, in the Civil Votes, and, in fact, economies over the whole field of Government expenditure—upon unemployment insurance, and upon the Road Fund—and these savings altogether will amount to £70,000,000. That is, the total savings, as I have indicated, will amount to £70,000,000 next year. The measures proposed will come into operation on October 1st next wherever possible, and the saving through these economies on this year's Budget is estimated to be £22,000,000 towards the deficit of £74,000,000.

Sinking Fund.

I want to say a few words about the Sinking Fund. In the original Budget the fixed Debt charge was £355,000,000, and under the law as it stands at present that sum will have to be provided before the end of the financial year. An amendment of the law on this point would in any case have been necessary owing to the alteration of our payments to the United States and the cessation of receipts from the Continent. We have had to consider whether we should provide for Debt redemption on the usual scale in the financial circumstances of this year and next. In all the circumstances, the Government have come to the conclusion that the proposed Sinking Fund provision should be, instead of about £52,000,000, £32,500,000 both this year and next year. That sum will suffice to meet our contractual obligations, which we are bound to meet on the terms of the prospectuses on which the loans were raised, including the regular annual provision for the redemption of the 3½ per cent. Conversion Loan, the 4 per cent. Consols, Victory Bonds, Funding Loan, and the capital of terminable annuities.

It is not proposed this year or next to provide out of the Sinking Fund for the redemption of Victory Bonds tendered in payment of death duties. For several years these bonds when received by the Inland Revenue in

payment of duties, have been handed over to the National Debt Commissioners who have bought them with money provided out of the Sinking Fund. That is a very convenient method of applying Sinking Fund moneys, but it involves an addition to the Sinking Fund which for the moment we are not justified in continuing. Of course, persons who pay death duties by Victory Bonds will still be able to do so. The Sinking Fund payment of about £5,750,000 to the United States will not be required this year, and the expense of providing dollars for the next year's payment—that is, as I have said, just under £6,000,000—will be charged to capital, and we shall substitute a sterling debt to our own people for a foreign debt.

The charge, then, against revenue for Debt redemption is reduced by these proposals by £13,700,000 this year and £20,000,000 next year. In the Finance Bill the proposals will take the form of a readjustment of the fixed Debt charge, and I will explain shortly how the figures are reached. I told the Committee that the fixed Debt charge for this year, as provided in the Budget, was £355,000,000, and of that sum £52,050,000 was for Debt redemption. The Hoover proposals enable us to reduce the fixed Debt charge to £335,700,000. The further proposals set out above reduce the fixed Debt charge for this year to £322,000,000, of which £32,500,000 will be for Debt redemption, and this saving is a further reduction of the deficit of £74,000,000 this year and of £170,000,000 next year.

Income Tax.

Now I come to the taxation proposals. After taking into account the economies and the saving on the Sinking Fund I am still faced with a net deficit of £39,000,000 for the current year and £80,000,000 for next year, and the balancing of the Budget both for this year and next demands the imposition of additional taxation to yield those sums. I must look to direct taxation to provide the greater part of this, and it is impossible to find the requisite sum in the field of direct taxation without raising the Income Tax. I propose to increase the standard rate for the current year by 6d., making it 5s. in the £.

Allowance on Plant and Machinery.

I have very carefully considered whether anything can be done to alleviate the burden of this increase upon industry. I regard the burden of the standard rate on industry as being on that income which is not distributed, but which is reserved for development purposes. Of course, on what is distributed the burden falls on the shareholders and not on the companies. The problem of giving some relief on sums placed to reserve, as the Committee know quite well, has often been discussed in the House of Commons, and I have on many occasions expressed sympathy, but up to now we have always found the practical difficulties to be insuperable. I do not despair of eventually finding some satisfactory solution of this problem, and it will be kept under consideration. Meanwhile, I propose to compensate industry otherwise for the additional burden placed upon it in consequence of the increase of 6d. in the standard rate of Income Tax. A relief of roughly the same amount will be given by means of a special increase of the existing allowance for depreciation of plant and machinery.

Where plant and machinery are used for earning profits, an allowance of a certain percentage of the value is made annually in respect of wear and tear, the percentage varying according to the expected life of the plant and machinery. This allowance will be increased by 10 per cent., and the total exclusion from taxation of the corresponding amount of profit will roughly make good to industry the additional 6d. on the taxed profits placed to development reserve. This relief has the merit that it is related to the actual use of plant and machinery, and accordingly the bulk of it will go to the basic industries. It will apply to individuals and firms engaged in trade, as well as to companies. It will be given against the Income Tax assessments for next year, for which the profits of the current year are the basis. I think I ought to say this, that under the Rules of Procedure of the House I am prevented from including the necessary clause in the present Finance Bill, but it will be dealt with in the next Finance Bill, and, of course, that will not delay the relief.

I may add also that the practice in regard to the allowance for obsolescence of plant and machinery has been for some time under consideration. Complaints have been made that too narrow a view has been taken of what constitutes replacement for the purposes of this allowance. In future, it is proposed to take a somewhat more liberal view than has been taken in the past, and in this way it is hoped to encourage the scrapping of old plant and its replacement by new.

[Personal and Other Allowances.

Concurrently with the increase of the standard rate, I propose to revise the various personal and other allowances which determine the scope and graduation of the tax. The purpose of this revision is twofold. It will, in the first place, bring within the range of Income Tax payers a large number of persons with incomes rising to £500 a year who at present pay no Income Tax at all, or a very small sum. In the second place, it will enable me to effect a wider differentiation between earned and unearned incomes than obtains at present. The principal personal allowances are those given to single and married persons. These now stand at £135 for a single and £225 for a married person. They were fixed at these figures by the Finance Act of 1920, in accordance with the recommendation of the Royal Commission on Income Tax. The Royal Commission, in recommending those figures, pointed out that they were fixed by reference to the then cost of living and that it might be necessary to review them by reference to any substantial change that might subsequently take place. Our urgent financial needs compel me to propose such a reduction in the personal allowances as was contemplated by the Royal Commission. I propose that the personal allowance should be reduced for the single person to £100, and for the married person to £150.

The allowances for children were fixed in 1920 at £36 for the first child and £27 for each subsequent child. In 1928 they were increased to £60 for the first child and £50 for each subsequent child. I propose to reduce the £60 to £50 and the £50 to £40, at which figures the allowances will still be more generous than those recommended by the Royal Commission. A corresponding reduction of the housekeeper allowance from £60 to £50 is also proposed.

As the Committee is aware, the graduation of the Income Tax is carried out in effect not only by means of deducting these personal allowances from the total income, but also by charging the first slice of the remaining income at less than the standard rate. The slice used to be £225 at half the standard rate, but in the Budget of last year I increased it to £250 and the rate of charge to four-ninths instead of five-tenths of the standard rate. I propose that for the current year the slice be fixed at £175 and the rate of charge at one-half of the standard rate.

These changes in personal allowances and in graduation affect all income, whether earned or unearned; but, in accordance with the general principle of ability to pay, I

think it is right that a relatively higher burden should be placed on investment income than on earned income in measuring the additional contribution to be levied on the community to enable the country to pay its way. I propose to effect this by increasing the allowance in respect of earned income from the figure of one-sixth of the income with a maximum of £250, at which it now stands, to an allowance of one-fifth of the income with a maximum of £300. This is the most effective way of differentiating between earned and unearned income, and indeed it is the only method by which such differentiation can be justly carried out.

I must now inform the Committee of the yield to be expected from the changes in the standard rate and in graduation. As the Committee is well aware, increases of Income Tax never yield the full measure of revenue in the year in which they are imposed. But an increase in the standard rate of Income Tax in the middle of the financial year will, of course, make the collection of the full amount within this year much more difficult, and it is therefore inevitable that I must make some allowance for this probable lag of receipts; but, of course, what I lose this year through that will be gained next year. That disposes of the standard rate, and I now pass to—— (Hon. Members: "Yield?")—It is £25,000,000 this year, and £51,500,000 in a full year. This disposes of the standard rate.

Sur Tax.

I now pass to the other part of the Income Tax, namely, the Sur Tax. In addition to his liability to the standard rate, the Sur Tax payer is already liable to Sur Tax on a sliding scale rising to 7s. 6d. in the £. Under my proposals, the payer at the standard rate has to face the increase of 6d. and a steeper graduation, and in the case of the Sur Tax payer, I propose, in addition to this increase in the standard rate, to put an increase of 10 per cent. on the amount of his Sur Tax bill. That will be the easiest way to do it this year, and it will save a vast amount of administrative work and will give us the yield. It will give us £4,000,000 in the current year and £6,000,000 in a full year, making, with the changes in standard rate, a total from Income Tax of £29,000,000 this year and £57,500,000 next year.

This completes my proposals with regard to direct taxation. They involve an increase in the burden placed upon existing taxpayers and an extension of the Income Tax over a somewhat wider range of incomes. After the deductions and allowances have been made, it will be seen, by anyone who makes the calculation, that the amount of Income Tax paid by those in the lower ranges, I will not say will be comparatively negligible, but very small indeed. I submit these proposals to the Committee as representing the fairest method of raising the large amount of direct taxation required.

Mr. Snowden then explained that he proposed to increase the duty on beer by 1d. a pint, yielding £4,500,000 this year and £10,000,000 in a full year; to increase the duty on tobacco by 8d. per lb., yielding £2,100,000 this year and £4,000,000 in a full year; and to add 2d. per gallon to the duty on petrol, yielding £3,900,000 in the current year and £7,500,000 in a full year. He then proceeded:—

Entertainment Duty.

Finally, I come to the entertainments duty. While I am no more enamoured of this tax than in the past, I feel that in the present circumstances it is a ready instrument for affording all sections of the community an opportunity to make a contribution to our needs. I fear that I must call upon the occupants of the cheaper seats, who have enjoyed freedom from the tax since I repealed that part of it in 1924, to join in this contribution. I am proposing a new scale in that duty which will represent a uniform rate of 16⅔ per cent. on the inclusive prices of admission or 20 per cent. on the exclusive prices. The duty will rise by halfpenny stages on inclusive prices of admission up to 1s. 3d. that is a 3d. admission charge will represent 2½d. admission with ½d. tax; a 6d. charge 5d. for admission and a 1d. tax; and a 1s. charge 10d. and 2d. Above the inclusive price of 1s. 6d. the tax will increase by stages of 1d. on every 5d.; that is to say out of every 6d. admission a charge of 5d. goes to the proprietor and 1d. to the Revenue. I think this uniformity in the scale will be found to be a very great convenience to the proprietors. I may add that with the re-imposition of the tax on seats of 6d. and under, I propose to re-enact the exemption in favour of entertainments for children at charges not exceeding 2d. The alteration in the scale of the entertainments duty should bring in £2,500,000 in a full year, and £1,000,000 in the present year. In order to admit of the necessary administrative preparations, this tax cannot become operative until November 9th.

I am now in a position to add up the expected yield of the various Customs and Excise duties. I expect them to yield this year £11,500,000, and next year £24,000,000.

Final Balance Sheet.

I am now in a position to balance the Budget for the current year. I have an estimated deficit of £74,000,000. I have allowed for economies this year of £22,000,000; saving on Debt redemption £13,700,000; new taxation this year—Inland Revenue £29,000,000, Customs and Excise £11,500,000. That is £76,200,000 in all to meet a deficit of £74,679,000. That gives an estimated surplus on the new basis of £1,500,000.

In regard to next year I have an estimated deficit of £170,000,000. Economies next year are expected to realise £70,000,000; Debt saving £20,000,000; new taxation—Inland Revenue £57,500,000, Customs and Excise £24,000,000. That is a total of £171,500,000, leaving an estimated surplus of £1,500,000.

Loan Conversion.

The Finance Bill will include Clauses designed to facilitate the conversion of the 5 per cent. War Loan to a lower rate of interest. Since 1929 the Treasury have had the power to pay off this loan at any time by giving three months' notice. Disappointment was expressed in some quarters that we did not carry out the operation earlier in the year. Money rates were for the time being favourable, but we were faced even then with the threat of disturbed money conditions in Austria and Germany, forebodings which unfortunately proved only too true. Our present position is difficult, but it would have been clearly impossible if we had undertaken last June or July the risk of having to find £2,000,000,000 to pay off this debt. The clauses in the Finance Bill do not fix a particular date for the operation, but they prescribe what is to happen when notice to repay is given by the Treasury. Such a notice will be coupled, of course, with a suitable offer to holders to convert their holdings into another form instead of taking repayment.

The clauses are necessarily very technical in character, but I will set out briefly their purpose and effect. In the first place, it is impossible to conduct the operation on the basis that three months' notice, neither more nor less, is given, and that then the Treasury is left in doubt up to the last moment as to what amount of cash they will have

to find for those who have not converted into the new stock. A longer period of notice than three months will be given, and while holders will be allowed three months in which to dissent—that is secured to them by the prospectus—we want the authority of Parliament for providing that if they do not dissent in three months from any offer made to them they shall be taken as assenting. There is nothing novel in this, as it is a power which on several occasions has been given by Parliament in connection with conversion operations.

In the second place, we need certain powers to enable us to frame the terms of the offer. The most convenient form of offer may be that holders shall be allowed to continue their present holdings, subject to a changed rate of interest and a new date for final repayment. What I may call in legal language, I believe, the other "incidents" of the loan will remain as at present. For instance, dividends would be paid without deduction of tax at the source. The House will understand that I am not pledging myself to the details of any particular operation, but the powers mentioned are sought in order that we may proceed in that manner if on the whole it should appear most suitable. In the third place, it is necessary for the Treasury to take power to deal with the large number of points of procedure that arise in connection with any great conversion operation, and, what is very important, we shall have to get express Parliamentary authority to protect trustees who accept any scheme for conversion or continuance of the holdings for which they are responsible.

I am seeking these powers in the Finance Bill in order that I may be ready to seize the first suitable opportunity to launch the operation. As I have explained, a conversion such as this is, in its magnitude, by far the greatest thing that has ever been undertaken in the history of the world. It will take some months to carry through, and therefore I am not allowing anything for any saving in this year's Budget.

PROPOSALS FOR NEW TAXATION.

Being extracts from White Paper issued by the Treasury in connection with the Chancellor's Financial Statement:

ENTERTAINMENTS.

Existing Duties—

Where the payment for admission, excluding the duty—

			s.	d.
Exceeds	6d.	and does not exceed 7d.	0	1
"	7d.	" " 8d.	0	1½
"	8d.	" " 1s. 1d.	0	2
"	1s. 1d.	" " 1s. 3d.	0	3
"	1s. 3d.	" " 2s. 0d.	0	4
"	2s. 0d.	" " 3s. 0d.	0	6
"	3s. 0d.	" " 5s. 0d.	0	9
"	5s. 0d.	" " 7s. 6d.	1	0
"	7s. 6d.	" " 10s. 6d.	1	6
"	10s. 6d.	" " 15s. 0d.	2	0
"	15s. 0d.	... ...	2	0

for the first 15s. and 6d. for every 5s. or part of 5s. over 15s.

Proposed Duties—

Where the payment for admission, excluding the duty—

			s.	d.
Does not exceed 2½d.		... ...	0	0½
Exceeds	2½d.	and does not exceed 5d.	0	1
"	5d.	" " 7½d.	0	1½
"	7½d.	" " 10d.	0	2
"	10d.	" " 1s. 0½d.	0	2½
"	1s. 0½d.	" " 1s. 3d.	0	3
"	1s. 3d.	... ...	0	3

for the first 1s. 3d. and 1d. for every 5d. or part of 5d. over 1s. 3d.

It is proposed that the increases in duty shall take effect in the case of hydrocarbon oils as from 6 p.m. on September 10th, 1931, in the case of beer and tobacco as from September 11th, 1931, and in the case of entertainments as from November 9th, 1931.

INCOME TAX.

Standard Rate.

It is proposed to increase the standard rate of Income Tax from 4s. 6d. to 5s. in the £ for the year 1931-32.

Changes in Allowances in respect of which Relief is given from the Standard Rate of Tax.

(*a*) It is proposed to increase the allowance in respect of earned income from one-sixth of the income with a maximum of £250 to one-fifth with a maximum of £300.

(*b*) It is proposed that the personal allowance for individuals, other than married persons, should be reduced to £100.

(*c*) It is proposed that the personal allowance for married persons should be reduced to £150.

(*d*) It is proposed that the allowances in respect of children should be reduced to £50 for the first child and £40 for each subsequent child.

(*e*) It is proposed that the Housekeeper Allowance should be reduced to £50.

(*f*) It is proposed that the deduction of tax under sect. 40 (2) of the Finance Act, 1927, as amended by sect. 10 of the Finance Act, 1930, shall be altered to a deduction of tax at half the standard rate on an amount of income not exceeding £175.

Sur Tax.

It is proposed to increase by 10 per cent. the amount of Sur Tax payable under sect. 6 of the Finance Act, 1931.

ESTIMATED EFFECT OF PROPOSED ALTERATIONS.

	Estimate, 1931-32. Increase.	In a Full Year. Increase.
Customs and Excise—		
Beer	£4,500,000	£10,000,000
Tobacco	2,100,000	4,000,000
Hydrocarbon Oils ..	3,900,000	7,500,000
Entertainments	1,000,000	2,500,000
Total Customs and Excise	£11,500,000	£24,000,000
Inland Revenue—		
Income Tax	£25,000,000	£51,500,000
Sur-tax: Additional 10 per cent.	4,000,000	6,000,000
Total Inland Revenue	£29,000,000	£57,500,000
Grand Total	£40,500,000	£81,500,000

FINAL BALANCE FOR 1931-32 AND 1932-33.

The Budgets for this year and next year will be balanced as follows:—

	1931-32.	1932-33.
Estimated Deficit on existing basis	£74,679,000	£170,000,000
Economies	22,000,000	70,000,000
Saving on Debt amortisation	13,700,000	20,000,000
New Taxation—		
Inland Revenue ..	29,000,000	57,500,000
Customs and Excise ..	11,500,000	24,000,000
	£76,200,000	£171,500,000
Estimated Surplus on new basis	£1,521,000	£1,500,000

These surpluses are reached after providing in each year approximately £32,500,000 out of revenue for amortisation of debt and after charging against revenue the amounts for the Unemployment Insurance Fund and the Road Fund which have hitherto been obtained by borrowing.

Society of Incorporated Accountants and Auditors.

MEMBERSHIP.

The following additions to the Membership of the Society have been completed since our last issue :—

ASSOCIATES.

ALBAN, VIVIAN FREDERICK, Clerk to Alban & Lamb, Central Chambers, Newport, Mon.

BARCLAY, ARCHIBALD GOOLD GRAHAM, Town Chamberlain's Office, Coatbridge.

BEAUMONT, FRANK CECIL, Clerk to Harry Davey, 1, Crown Court, Wakefield.

BEEKES, FREDERICK JOHN, Clerk to Duart-Smith, Baker and Price, Albion House, King Street, Gloucester.

BELL, HENRY JOHN, Clerk to Hughes & Allen, 5, Boulevard Malesherbes, Paris.

BERRINGER, FERDINAND WILLIAM, Clerk to Futcher, Head, Smith & Co., 110, Cannon Street, London, E.C.4.

BORRIES, CHRISTIAN, Internal Audit Department, East Sussex County Council, County Hall, Lewes, Sussex.

COLLINS, BERKELEY EDMUND, Clerk to Davidson & Verity, West Bar Chambers, 38, Boar Lane, Leeds.

DODSWORTH, HAROLD, Clerk to Peat, Marwick, Mitchell and Co., Guildhall, Newcastle-on-Tyne.

ELY, HAROLD ARTHUR, Clerk to Harper Smiths, Hayhow and Co., Purdy Court, High Street, King's Lynn.

ENDACOTT, HERBERT JOHN, Clerk to George E. Cooke, 287, Broad Street, Pendleton, Manchester.

HARTLEY, TOM STEPHENSON, Clerk to Samuel Procter, County Bank Chambers, 41, Burnley Road, Padiham, near Burnley, Lancs.

HAYES, STANLEY RATHBONE, Clerk to P. R. Hayes, Midland Bank Chambers, High Street, Wrexham.

HEADLAND, LEONARD THOMAS, Clerk to Geo. W. Spencer and Co., 10, Bush Lane, Cannon Street, London, E.C.4.

HILL, ALAN FREDERICK, Clerk to F. Shaw & Co., 46, Gresham Street, London, E.C.2.

HOLLIDAY, WILFRED BARTON, Clerk to Fredk. & C. S. Holliday, Pearl Chambers, East Parade, Leeds.

HOPKIN, HAROLD CHATTERTON, Clerk to Percy H. Walker and Co., 4, Park Place, Cardiff.

HUTCHESON, JAMES BLAIR, City Chamberlain's Office, 285, George Street, Glasgow.

JOHNSON, IVOR, Clerk to Hughes & Allen, King's House, King Street, London, E.C.2.

KAR, SUBODH KRISHNA, B.Sc., Clerk to G. Basu & Co., Salisbury House, 3/1, Bankshall Street, Calcutta, India.

LOMAX, WILFRID MORTON, Clerk to Lomax, Clements, Gladstone & Co., Greenwich House, 10-13, Newgate Street, London, E.C.1.

MANGHIRMALANI, SHAMDAS UDHARAM, B.A., Clerk to Dalal & Shah, 70, Medows Street, Fort, Bombay.

O'BRIEN, JNR., THOMAS HENRY, Clerk to Louis Nicholas and Co., 19, Castle Street, Liverpool.

PELLING, CLIFFORD HORACE, County Accountant's Department, East Sussex County Council, County Hall, Lewes.

ROSENBAUM, DANIEL, B.Com., Clerk to Simon L. Lewis and Co., Camomile Chambers, 36, Camomile Street, London, E.C.3.

ROSIER, STEPHEN, Clerk to Keens, Shay, Keens & Co., 69, High Street, Stony Stratford.

SEN, NARENDRA NARAYAN, B.Sc., Clerk to S. N. Mukherji, 1B, Old Post Office Street, Calcutta, India.

THURSBY, ROBERT JOHNSTON, City Chamberlain's Office, 285, George Street, Glasgow.

UPTON, REGINALD, Deputy Borough Treasurer, Town Hall, Hemel Hempstead.

WALSH, JAMES, Clerk to Wright, Fairbrother & Steel, 34 and 36, Gresham Street, London, E.C.2.

WREFORD, JOHN FINNAMORE, Clerk to Widdowson and Simpson, Capel House, 54, New Broad Street, London, E.C.2.

STOCK EXCHANGE EX-DIVIDEND RULE

The following is the new Ex-Dividend Rule of the Stock Exchange which came into operation recently :—

RULE 111.—(1) Government and Corporation Securities, Inscribed, Registered, Scrip, Certificates or Bonds, shall be made ex-dividend on the day after that on which the Books close for the payment of the dividend, except Victory Bonds, which shall be made ex-dividend ten days prior to the payment of the dividend.

(2) Securities deliverable by Deed of Transfer, except Registered Debentures, shall be made ex-dividend on the Contango Day following the date on which the dividend may have been declared, provided the Transfer Books have already been closed for the payment of the dividend. If the Transfer Books are not closed until after the dividend has been declared, the Securities shall be made ex-dividend on the Contango Day following the closing of the Books.

(3) Securities to Bearer and Registered Debentures shall be made ex-dividend on the day when the dividend is payable, but Securities to Bearer with Coupons payable only abroad may be made ex-dividend on the Contango Day which shall allow the necessary time for the transmission of the Coupon for collection.

(4) (*a*) "American Shares" (both quoted and unquoted) shall be made ex-dividend on the day following that on which they are dealt in ex-dividend in New York or other "American" Exchange.

(*b*) In the case of "American" Companies which have a London Register, if, in any event, the London Books have not been closed on the date following that on which the Shares are dealt in "ex-dividend" in New York or other "American" Exchange, the Shares shall not be made ex-dividend until the London Books have in fact been closed.

Broadly speaking, the amendments to Rule 111 substitute the Contango Day (the Monday) as the ex-dividend date for the Account Day (the Thursday).

In order that Members and their clients may obtain the full benefit of the change, company secretaries should endeavour to fix the material date (*i.e.*, the date of the board or general meeting declaring or confirming the dividend or the first date of the closing of the transfer books if such date be after the board or general meeting) on a day as late as possible in the week preceding a Contango Day.

The following are the Contango Days of the Accounts to the end of the year :—

October.—Mondays, 5th and 19th.
November.—Friday, 30th (October) and Monday 16th.
December.—Mondays, 30th (November) and 14th.

Should company secretaries have any difficulty or doubt as to the most convenient date it is requested that they may communicate with the Share and Loan Department.

FINANCE (No. 2) BILL.

The following are the provisions of the Finance (No. 2) Bill, 1931, in so far as they refer to Income Tax and 5 per cent. War Loan :—

PART II.

INCOME TAX.

Increase in Standard Rate.

6.—(1) The standard rate of income tax for the year 1931-32 shall be the rate of 5s. in the £ instead of the rate of 4s. 6d. in the £, as provided by sub-sect. (1) of sect. 5 of the Finance Act, 1931, and accordingly it is hereby declared that any deductions of tax made before the passing of this Act by reference to a rate of 5s. are to be treated for all purposes (including all the purposes of any legal proceedings instituted before the passing of this Act) as having been made by reference to the proper rate :

Provided that this sub-section shall not invalidate anything done before the passing of this Act or render improper any deduction in respect of income tax made before October 15th, 1931, which would have been a proper deduction if this Act had not passed.

(2) The provisions of the Third Schedule to this Act shall have effect for the purposes of and in connection with the change in the standard rate of income tax made by this section.

Sur Tax for 1930-31.

7.—Sect. 6 of the Finance Act, 1931 (which determines the higher rates of income tax for the year 1930-31), shall have effect as if each of the amounts specified in the second column of the Table contained in that section were increased by 10 per cent., and the amount payable by virtue of any assessment in respect of sur tax for the year 1930-31 made before the passing of this Act shall, by virtue of this Act and without more, be treated as varied accordingly.

Amendments of Enactments Relating to Income Tax Reliefs.

8.—(1) The enactments specified in the second column of the Fourth Schedule to this Act (being enactments which relate to the income tax reliefs described in the first column of the said Schedule) shall be amended in the manner specified in the third column of the said Schedule.

(2) Where relief from income tax for the year 1931-32 has been given to any individual and the amount thereof is incorrect by reason of any of the amendments made by this section, then—

(*a*) if the relief was given by the reduction of an assessment on that individual, the assessment shall, by virtue of this Act and without more, be treated as varied so as to give effect to the said amendments ; and

(*b*) if the relief was given otherwise than by the reduction of an assessment on that individual, any amount of relief so given in excess may, if not otherwise made good, be assessed under Case VI of Schedule D and recovered from that individual accordingly.

Notice of Variation of Assessment, &c.

9.—Where the amount of tax payable under an assessment is to be treated as varied by virtue of sect. 6 or sect. 8 of this Act, or exceeds the amount which would have been payable if those sections had not passed, the Commissioners of Inland Revenue shall cause such notification as may be necessary to be given to the person affected thereby, and any notification so given shall, as regards any particulars of the assessment contained in the notification which have not been contained in a notice of assessment, have effect as if the notification were a notice of assessment.

Income Tax in Connection with Conversion of Government Securities.

10.—Where in pursuance of an arrangement which is being carried out under sect. 60 of the Finance Act, 1916 (which relates to the conversion of Government securities) the Treasury direct that the provisions of this section shall have effect, any person who is carrying on a trade which consists wholly or partly in dealing in securities and who in pursuance of the arrangement exchanges securities to which he is beneficially entitled for other securities (whether or not any additional consideration is given for the exchange) shall, unless he gives notice in writing to the surveyor not later than the end of the year of assessment next following the year of assessment in which the exchange takes place that he desires not to be so treated, be treated for income tax purposes (except as regards any income tax payable in respect of interest), both at the time of the exchange and thereafter, as if the exchange had not taken place, and in that case the produce of any subsequent realisation of securities received by him under the exchange (together with any additional consideration, or the appropriate part of any additional consideration, received by him thereunder) shall be treated as the produce of the realisation of the corresponding securities surrendered by him under the exchange.

PART III.

PROVISIONS AS TO 5 PER CENT. WAR LOAN, 1929-1947.

Right of Stockholders to continue Holdings in 5 per Cent. War Loan ; Requirement of Application for Cash Repayments, &c.

11.—(1) If notice is given in accordance with the prospectus dated January 11th, 1917, of the intention of His Majesty's Government to redeem the 5 per cent. War Loan, 1929-1947 (in this Part of this Act referred to as " the Loan ") and the notice includes a declaration that this Part of this Act is to come into operation, the following provisions shall have effect :—

(*a*) The holders of any stock or bonds of the Loan (in this Part of this Act referred to as " stockholders ") shall, on making an application in that behalf (in this Part of this Act referred to as " a continuance application ") in accordance with the provisions of this Part of this Act, be entitled—

(i) to have their holdings in the Loan continued therein after the date fixed by the notice for the redemption thereof (in this Part of this Act referred to as " the redemption date "), but subject to such immediate or gradual reduction in the rate of interest, and such modifications in the name and terms of repayment, and in the other conditions and incidents, of the Loan as may be specified in the notice ; and

(ii) to have issued to them such bonus stock or bonus bonds, if any, to form part of the Loan as continued under this section, as may be specified in the notice ;

(*b*) Stockholders desiring to receive on the redemption date repayment in cash in respect of their holdings must make an application in that behalf

(in this Part of this Act referred to as "a repayment application") in accordance with the provisions of this Part of this Act;

(c) If, in the case of any holding (not being the holding of the National Debt Commissioners corresponding to the holdings held on the Post Office Register) neither a continuance application nor a repayment application is in force at the expiration of the period of three months next following the day on which the notice was published, the provisions of this Part of this Act shall have effect as if a continuance application had been made in respect of the holding on the last day of the said period.

(2) A repayment application in respect of a holding shall, unless the Treasury in any particular case otherwise direct, be treated as revoked—

(a) by the making of a continuance application in respect of the holding at any time before the redemption date;

(b) by changing the form of the holding or part thereof from stock to bonds or bonds to stock, or by any transfer of the holding or part thereof from any books or register to any other books or register, not being merely a transfer to or from the books of the Bank from or to the transfer by deed register;

(c) except in the case of a bearer bond, by the completion of any transfer of the holding, so however, that where part only of the holding is transferred, the revocation shall only operate as respects that part.

(3) Save as provided by the last preceding sub-section, continuance applications and repayment applications shall be irrevocable and shall bind the stockholders and their successors in title.

(4) The Treasury may, if they think it desirable, undertake to pay cash bonuses to stockholders by whom continuance applications are duly made within such period as may be specified in the undertaking or within such extended period as the Treasury may in any special case allow.

Power to Make Regulations.

12.—(1) The Treasury may make regulations for carrying this Part of this Act into effect and in particular and without prejudice to the generality of the foregoing power—

(a) for prescribing the manner in which and the persons to whom continuance applications or repayment applications are to be made and for specifying the evidence which may be accepted by those persons as to matters on which the validity of such applications may depend;

(b) for specifying the persons by whom any such applications may be made in cases where any stockholder has died, or is outside the United Kingdom, or is of unsound mind, or is an infant, or is otherwise under disability, or where a notice in lieu of distringas is in force with respect to the holding;

(c) for enabling continuance applications to be made by a majority of the stockholders in cases where the holding is held jointly by more than two persons (including cases where the stockholders are trustees or are otherwise acting in a fiduciary character) and for authorising in any case payment of any cash bonus in accordance with the instructions of the persons making the application by reason of which the bonus is payable;

(d) for prescribing the manner in which certificates, bonds and other documents with respect to holdings in the Loan are to be dealt with and for determining how far such certificates, bonds and documents are to be valid after the redemption date;

(e) for enabling the books and the transfer by deed register of the Bank and the Post Office Register to be closed for a period immediately preceding the redemption date.

(2) The Treasury shall forthwith publish in the *London Gazette* any regulations made under this section.

Indemnity to Trustees and others, and to the Bank, &c.

13.—(1) Persons who are by virtue of this Part of this Act authorised to make a continuance application shall not be liable for any loss resulting from their making such an application or their not making a repayment application, and trustees and other persons acting in a fiduciary character are hereby expressly authorised to make continuance applications.

(2) The provisions of this Part of this Act shall be a full and sufficient indemnity and discharge to the Bank and the officers of the Bank, the Postmaster-General and the trustees and officers of Trustee Savings Banks for all things done by them respectively in pursuance of this Act or of any regulations made thereunder.

Provisions as to Instruments with respect to War Loan.

14.—(1) A power or direction to invest in the Loan shall not cease to be operative by reason only of changes in the name, conditions or incidents thereof effected under this Part of this Act.

(2) A power of attorney authorising the transfer of a holding shall be taken as authorising the making of a continuance or repayment application with respect to that holding, but a requirement in any instrument creating or regulating a trust that the trustees shall obtain the consent of any person before varying the investment of the trust funds, shall not be taken as requiring the trustees to obtain the consent of that person before making a continuance or repayment application.

Provision as to Cash Bonus.

15.—(1) A warrant given by the Bank for the payment of any cash bonus payable under this Part of this Act shall be deemed to be a cheque within the meaning of the Bills of Exchange Act, 1882, and shall be exempt from stamp duty.

(2) As between persons having any beneficial interest in a holding, any cash bonus payable in respect of the holding shall belong to the persons entitled to the income of the holding on the day when the bonus is payable.

Provisions as to Income Tax in Certain Cases.

16.—Where a holding in the Loan which is continued under this Part of this Act beyond the redemption date is in the beneficial ownership of a person who is carrying on a trade which consists wholly or partly in dealing in securities, that person shall, if he gives notice in writing to the surveyor not later than the end of the year of assessment next following the year of assessment in which the redemption date falls, that he desires to be so treated, be treated for the purposes of the Income Tax Acts as having changed his investment on the redemption date, but if he gives no such notice he shall, except with respect to the tax on the interest on the holding, be for those purposes treated, both then and thereafter, as not

having changed his investment, and in that case the produce of any subsequent realisation of the whole or any part of the continued holding (which holding shall, for the purpose of this provision be deemed to include any bonus stock or bonus bonds issued in respect of the continuance of the holding) together with any additional consideration, or the appropriate part of any additional consideration, received by him in connection with the continuance, shall be treated as the produce of the realisation of the whole or the appropriate part of the original holding.

Provision for Incidental Expenses.

17.—(1) Any expenses incurred in carrying this Part of this Act into effect (including sums paid on account of any cash bonus payable under this Part of this Act, or on account of any interest on the Loan which becomes payable in the financial year in which the redemption date falls instead of in the next following financial year) may, if the Treasury so direct, be defrayed out of the Consolidated Fund or the growing produce thereof, instead of being defrayed out of the permanent annual charge for the National Debt as part of the annual charges in respect of interest and management.

(2) For the purpose of providing for the issue of any sum directed to be defrayed out of the Consolidated Fund under this section, or for the repayment to that fund of all or any part of any sum so issued, the Treasury may raise money in any manner in which they are authorised to raise money under and for the purposes of sub-sect. (1) of sect. 1 of the War Loan Act, 1919, and any securities created and issued to raise money under this sub-section shall be deemed to have been created and issued under that sub-section.

Saving for Statutory Powers with respect to National Debt, including Powers of Treasury as to arrangements with Non-Residents.

18.—The provisions of this Part of this Act shall be in addition to and not in substitution for the provisions of any other Act conferring powers with respect to the National Debt, and in particular the coming into operation of this Part of this Act shall not prevent the Treasury from making and carrying out arrangements under sect. 60 of the Finance Act, 1916, with persons who are for the time being not ordinarily resident in the United Kingdom for the surrender of stock or bonds of the Loan and the issue in lieu thereof of other securities.

19.—In this Part of this Act the expression "the Bank" means the Bank of England or the Bank of Ireland, as the case may require.

THIRD SCHEDULE.

PROVISIONS FOR GIVING EFFECT TO THE CHANGE IN THE STANDARD RATE OF INCOME TAX FOR THE YEAR 1931-32.

1.—The amount payable by virtue of any assessment made before the passing of this Act shall, by virtue of this Act and without more, be treated as varied to such extent as is necessary to give effect to the change in the standard rate:

Provided that this paragraph shall not apply in the case of income chargeable under Schedule C, under Rule 6 or 7 of the Miscellaneous Rules applicable to Schedule D, or under Rule 21 of the General Rules.

2.—In the case of such income as is mentioned in the proviso to paragraph 1 of this Schedule, any deficiency in the amount of tax deducted from any payment made before October 15th, 1931 (being a deficiency arising by reason of the change in the standard rate) shall, so far as possible, be made good by increasing the deduction required or authorised by law to be made from the next payment and, if necessary, the deductions required or authorised by law to be made from subsequent payments (being a payment or payments made after the passing of this Act and before October 15th, 1932) by an amount equal to the amount of the deficiency, and the deficiency so made good shall be accounted for and assessed in the same manner as the tax deducted from the original payment.

3.—Subject, in any case where paragraph 2 of this Schedule applies, to the provisions of that paragraph, sect. 211 of the Income Tax Act, 1918 (which relates to the charge and deduction of tax in any year not charged or deducted before the passing of the annual Act) shall apply as if—

(*a*) this Act were the Act imposing the tax for the year; and

(*b*) a reference to October 15th, 1931, were, so far as relates to any deficiency in the amount of tax deducted from any payment made after the passing of this Act but before the date aforesaid, substituted for any reference to the passing of the Act imposing the tax for the year; and

(*c*) in sub-sect. (1) of the said section the words "half-yearly or quarterly" were omitted, and the words "or the person by or through whom the payments were made, as the case may be," were inserted after the words "the agents entrusted with the payment of the interest, dividends or other annual profits or gains."

FOURTH SCHEDULE.

AMENDMENT OF ENACTMENTS RELATING TO RELIEFS FROM INCOME TAX.

Subject Matter.	Enactment amended.	Amendment.
Personal allowance.	The Finance Act, 1920, sect. 18.	In sub-sect. (1) for the words "two hundred and twenty-five pounds" there shall be substituted the words "one hundred and fifty pounds"; and for the words "one hundred and thirty-five pounds" there shall be substituted the words "one hundred pounds." In sub-sect. (2) for the words "five-sixths" there shall be substituted the words "four-fifths."
Deductions in respect of relative or other person taking charge of widower's or widow's children or acting as housekeeper or in respect of widowed mother, &c.	The Finance Act, 1920, sects. 19 and 20, and the Finance Act, 1924, sects. 21 and 22.	The amount on which a deduction of tax at the standard rate is to be allowed shall in each case be fifty pounds instead of sixty pounds.

Subject Matter.	Enactment amended.	Amendment.
Deduction in respect of children.	The Finance Act, 1920, sect. 21.	For the words "sixty pounds," wherever they occur, there shall be substituted the words "fifty pounds"; and for the words "fifty pounds" there shall be substituted the words "forty pounds."
Allowances in respect of earned income and allowances by reference to total income of persons of age of sixty-five years.	The Finance Act, 1925, sect. 15.	For the words "one-sixth," wherever they occur, there shall be substituted the words "one-fifth"; for the words "two hundred and fifty pounds" there shall be substituted the words "three hundred pounds" and for the words "one hundred and sixty pounds" there shall be substituted the words "one hundred and twenty-five pounds."
Relief from balance of tax chargeable after allowance of other reliefs.	The Finance Act, 1927, sect. 40 (2)	For the words "five-ninths," wherever they occur, there shall be substituted the words "one-half"; and for the words "two hundred and fifty pounds" there shall be substituted the words "one hundred and seventy-five pounds."
Relief in respect of life insurance premiums, &c.	The Income Tax Act, 1918, sect. 32.	Para. (*f*) of sub-sect. (3) shall cease to have effect.

FIFTH SCHEDULE.

Enactments Repealed.

PART I.

Enactments Repealed as from April 6th, 1931.

Session and Chapter.	Short Title.	Extent of Repeal.
8 & 9 Geo. 5, c. 40.	The Income Tax Act, 1918.	Para. (*f*) of sub-sect. (3) of sect. 32.
20 & 21 Geo. 5, c. 28	The Finance Act, 1930.	Sect. 11.

PART II.

Enactments Repealed as from the passing of this Act.

Session and Chapter.	Short Title.	Extent of Repeal.
11 & 12 Geo. 5, c. 32	The Finance Act, 1921.	In paragraph 1 of the Third Schedule to the Finance Act, 1921, the words "in the British Isles."
21 & 22 Geo. 5, c. 28	The Finance Act, 1931.	Sub-sects. (3), (4) and (5) of sect. 36.

QUESTIONS IN PARLIAMENT.

In reply to a question by Major LLEWELLIN, on September 15th, the FINANCIAL SECRETARY TO THE TREASURY stated that the increase in the standard rate of tax, although applying to the whole income tax year, will not become legally operative until the date of the passing of the Finance Act. Strictly, therefore, tax will continue to be deductible by reference to the rate of 4s. 6d. in the £ until that date. In order, however, to reduce as far as possible the necessity for subsequent adjustment, it may be found convenient, in the case of payments to be made between now and the date on which the Finance Bill becomes law, to arrange for deduction by reference to the increased rate of 5s. in the £, but this is, of course, a matter between the payer and the recipient. The terms of the Finance Bill, will, in any case, be such as to secure that, in cases where deduction of tax has been made, before the passing of the Act, by reference to the increased rate of 5s. in the £, such deduction will, after the passing of the Act, automatically become a legal deduction as from the date on which it was made. In view of the fact that the increased rate of 5s. is to apply for the whole year, adjustments will be necessary to make good under-deductions of tax in respect of payments made at any time before the passing of the new Finance Act, and the Finance Bill will contain provisions relating to these adjustments. He pointed out that, as regards dividends of British companies (other than dividends payable on preferred shares at a fixed gross rate per cent.), no question of any adjustment need arise. Under the existing law, the net amount of any such dividend will be taken for all income tax purposes to represent income of such an amount as, after deduction of tax by reference to the increased rate of 5s., is equal to the net amount paid.

INCOME TAX AND DIVIDENDS.

In reply to Captain TODD, on September 16th, the CHANCELLOR OF THE EXCHEQUER said the Finance Bill will include provisions to legalise deductions by reference to the standard rate of 4s. 6d. in the £, although they may be made after the passing of the Finance Act, if they are, in fact, made before October 15th next. The Bill will also contain provisions relating to the subsequent adjustment of under-deductions of tax in such cases. As was recently explained in answer to a question on a cognate matter, in the case of dividends of British companies, other than dividends payable on preferred shares at a fixed gross rate per cent., no question of any adjustment need arise because, under the existing law, the net amount of any such dividend will be taken for all income tax purposes to represent income of such an amount as, after deduction of tax by reference to the increased rate of 5s., is equal to the net amount paid.

THE COMPANIES ACT.

On September 15th Mr. EDE asked the President of the Board of Trade whether he will remedy the flaw in sect. 134 of the Companies Act, 1929, as disclosed during the recent case in the Criminal Court, by amending the Act so as to require that an auditor's certificate to the profit and loss account shall be published with the balance sheet, and to provide further that the public shall be protected by the publication of the details of any profit and loss account required by the Companies Act instead of the certification of the balance of profit and loss?

The PRESIDENT OF THE BOARD OF TRADE (Sir Philip Cunliffe-Lister): These suggestions have been noted.

Under the existing law, the profit and loss account must be laid before the company in general meeting.

Mr. EDE: Can the Right Hon. Gentleman say whether among the measures for securing the progress of industry in this country, mentioned by the Minister of Health last night, is an amendment of the Companies Act to assure shareholders of the security of the money they invest?

Sir P. CUNLIFFE-LISTER: Any further amendments of the Companies Act will require very careful consideration and obviously that cannot be carried out by this Government.

Mr. MAITLAND: Is it not a fact that the present section already provides that there should be some reference to profit and loss account included in the balance sheet? Is it not also a fact that the balance sheet must contain a balance of profit and loss account, and, if the profit and loss account contains any improper items, the balance transferred from that account will be incorrect, and therefore the balance sheet itself will be incorrect and not subject to certification? In view of the great importance of this matter, will the Right Hon. Gentleman consider appointing a committee to consider this question, which is very important to the accountancy profession as well as to the public and trading community?

Sir P. CUNLIFFE-LISTER: I have already said in my answer that the profit and loss account has to be laid before the company.

Colonel WEDGWOOD: Does the Right Hon. Gentleman still take the point of view which he took when piloting the last company law through Parliament, that it required no further amendment?

Changes and Removals.

Mr. Alan Barwick, practising under the style of Clarkson and Barwick, has taken into partnership Mr. C. N. Kennedy. The partnership will be carried on under the style of Barwick, Kennedy & Co., Incorporated Accountants, at Lloyds Bank Chambers, Keswick, and National Provincial Bank Chambers, Cockermouth.

Mr. William A. Beeson, Incorporated Accountant, has removed his offices to 614, London Road, Westcliff-on-Sea.

Mr. M. Berman, Incorporated Accountant, has commenced public practice at Liberal Life Buildings, Corner of Burg and Church Streets, Cape Town.

Mr. W. J. Cutlack, Incorporated Accountant, has taken over the practice of the late Mr. C. L. Kettridge, Incorporated Accountant, formerly practising as C. L. Kettridge and Co. He will practise under the style of Cutlack and Co., at 1, London Wall Buildings, London, E.C.2.

Mr. J. Lewin, Incorporated Accountant, has commenced public practice at 106, Bolsover Street, Portland Place, London, W.

Mr. H. McMillan, Incorporated Accountant, has removed his office from 44, Donegall Street, to 113, Royal Avenue, Belfast.

Messrs. Geo. A. Marriott, Rogerson & Co., Incorporated Accountants, announce a change of address to York House, 12, York Street, Manchester.

Mr. M. V. Sundararajan, B.A., Incorporated Accountant, has commenced to practise at Y.M.I.A. Buildings, Armenian Street, George Town, Madras.

FRIENDLY SOCIETIES REPORT.

The following are extracts from the Report of the Chief Registrar of Friendly Societies for the year 1929:—

UNQUALIFIED AUDITORS.

Cases continue to arise in which losses are directly attributable to the incompetence of unqualified auditors. The experience of the Order Achei Ameth Brethren of Truth Friendly Society provides a case in point. During the audit of the society's accounts for 1928 the auditors expressed doubts as to the existence of an investment in Treasury Bonds and drew attention to the irregularity of payments into bank. While investigations were proceeding the treasurer committed suicide. Accountants were thereupon called in to make further investigations, and found that the late treasurer had been defrauding the society since 1921 and had misappropriated £5,575 13s. 10d. If the auditors in past years had performed their duties properly, and obtained a certificate from the bank verifying the amount in the society's account, the fraud would have been discovered and the society would have been saved about £5,000. The auditors on several occasions had accepted the bank pass book as sufficient evidence of the bank balance, and on one occasion had accepted an entry in it as evidence of the purchase of £700 of Treasury Bonds. It was found that the pass book had been written up by the treasurer himself.

The frauds were made possible in the first instance through allowing the treasurer to have sole control of all cash and cheques received. Moreover, although he was required by the society's rules to keep a book of accounts of all moneys received and paid by him, he did not keep such a book and the auditors during the period of defalcations did not ask for its production.

In the case of Loyal Crown Hill Lodge No. 7206, the auditors purported to certify investments in War Loan, Treasury Bonds and Savings Certificates, when in fact no such investments had been made. Apparently they had signed blank sheets which were afterwards filled in by the secretary, who by reason of this laxity on their part was able to defraud the Lodge of £502, or almost the whole of its funds.

Another example of the danger of employing auditors who are not fully conversant with their duties is afforded by the case of the Loyal Ellison Lodge No. 58 and the Loyal Rudgard Lodge No. 51. The same person acted as secretary of these two lodges and was found to have misappropriated in all £211 9s. 10½d. The special auditors appointed by the Executive Council of the Order to audit the accounts of these lodges reported as follows:—"We are of the opinion that the auditors who had been appointed year by year were not capable of performing the work as they appear to have no idea of the duties of an auditor. From what could be ascertained they were only concerned with the totalling of various columns of figures. No previous balance sheet or starting figures were taken into consideration, neither was the bank book examined." In the case of Lodge No. 58 it was further reported that, from the information given, the auditors had been in the habit of signing the balance sheets and annual returns before any matter had been written thereon.

The annual returns of the Earl of Carlisle Lodge No. 535 for several years past showed that the lodge had paid the contributions of some of its members by way of grants from its distress fund, but had not credited the sick and funeral fund with the contributions. At the Registrar's

suggestion the matter was looked into by a director of the Order, who instructed the secretary as to the proper treatment of such grants in the future. The Registrar inquired what conclusion had been arrived at in regard to the errors of previous years, which indicated a shortage of assets, but was informed that there was no shortage. The returns for 1927 and 1928 were therefore sent for correction on the ground that contributions amounting to £69 15s. 8d. had not been brought into account. When the returns were received back corrected it was found that the cash in hand and at bank had been understated by £45 15s. 9d., and that interest on investments had been overstated by £23 19s. 11d.

The annual return of the Lord Worsley Lodge No. 444 showed a cash deficiency of £119 12s. 10d. on the appointment of new auditors, who found that the previous auditors had not taken proper measures to satisfy themselves as to the balance of cash. The deficiency was stated to be due to the slack method of bookkeeping of a former secretary and the view was held that the amount had been paid away without adequate entries being made in the books or receipts given. The amount was subsequently written off.

A public auditor appointed to audit the accounts of the Honest Intent Lodge No. 541 discovered that a sum of £150 received on realisation of an investment had been entered in a previous return as depreciation. In order to balance the accounts contributions of members in excess of the amount actually received had been shown.

The return for 1928 of the Loyal Star of Moray Lodge No. 1060 was sent back for correction, as the amount of benefit funds brought forward was £64 18s. 5d. less than shown in the previous return. The branch corrected the error and the following consequent adjustments were made in the assets entered in the balance sheet :—

(i) A loan of £170 on the security of heritable property was inserted, while an investment of £100 in War Loan which was realised in 1928 was omitted ;

(ii) The balance at bank was altered from £6 14s. 4d., to 9s. 1d. ;

(iii) The cash in hands of the Treasurer was altered from £7 16s. 9d. to £9 0s. 5d.

Lay auditors had previously signed the return without any special report, and they initialled all the alterations.

Owing to difficulty in obtaining information from the secretary or assistant secretary, the accounts of the Loyal Strathspey Lodge No. 1077 were investigated by the District Secretary and a professional accountant.

Among other defects, it was found that :—

(i) Certain benefits had not been paid at the time they were entered in the cash book, but had been paid subsequently ;

(ii) Other benefits entered in the cash book had not been paid at all ;

(iii) There were no receipts for certain benefits, which, however, were assumed to have been paid ; and

(iv) Interest earned on investments had not been credited in the books.

The accounts had to be re-written in order to present a correct annual return to the Registrar. The investigators, who also acted as auditors of the 1928 accounts, recommended that a competent secretary should be immediately appointed and that the assistant secretary should be required to produce his cash in hand (about £46) immediately. It is understood that this has been done and that the branch intends to carry out other recommendations of its auditors for its better management.

UNAUTHORISED TRANSFERS OF FUNDS.

The annual return of the Edinburgh Compositors' Society showed transfers from the Sickness Fund of £1,000 to the Annuity Fund and £800 to the Management Fund. As regards the first-mentioned transfer, it was explained that the Sickness and Annuity Funds had previously been kept together, but it was desired in future to have a separate Annuity Fund. On the advice of the Registrar, the society agreed to instruct its actuary at the next quinquennial valuation to revise its tables and allocate the existing funds to the best advantage. In the meantime the amounts were transferred back to the Sickness Fund. The transfer to the Management Fund was unauthorised by the registered rules, and the last quinquennial valuation had shown that the financial position of the benefit funds would not permit of such a transfer.

In the annual return of the Dalkeith District Ancient Order of Foresters, £200 was transferred from the District Funeral Fund to a Propaganda Fund. On the matter being questioned by the Registrar, the District Secretary said the transfer was authorised by the annual delegate meeting. The branch was informed that as there was no provision in the registered rules, the resolution of the delegate meeting was insufficient authority, and that in any event the whole of the surplus shown by the last quinquennial valuation had been allocated to the courts in the district. The district accordingly undertook to transfer the amount back to the Funeral Fund.

DEFALCATIONS.

Many defalcations would be prevented, or would be discovered in their early stages, if auditors were to verify the cash in hand as part of their audit routine. The objection usually raised to this suggestion is that, as an audit takes place some considerable time after the close of the period covered by the accounts under audit, a count of the cash in hand at the date of the audit is of little use unless a cash audit to that date is also undertaken. This may be so, but there is no reason, in the ordinary way, why auditors should not, on December 31st of each year, ask for the cash in hand to be produced and keep a note of the amount produced for comparison with the cash balance disclosed by the books when they are, in due course, submitted for audit. Where attendance at the end of the year is impracticable it appears essential that before signing the certificate cash should be produced and the amount reconciled with the intervening transactions. The precaution is particularly valuable in the case of clubs as defalcations are often covered by an overstatement of the cash balance.

A case in point is that of the Colerne Liberal Club and Institute. On examination of the annual return of this club for the year 1927, it was observed that the amount shown as cash in hand at December 31st was equal to the average takings of the club for about seven weeks. As this ratio was greatly in excess of that which normally obtains, the auditor was asked whether he was satisfied that the cash was actually available. From his reply—which was to the effect that he had already protested against the practice of retaining so large a cash balance—it appeared that it was not the auditor's custom to count the cash at the end of the year. Before commencing the audit of the accounts for 1928, however, the auditor insisted that the position in regard to the cash in hand should be cleared up and, as the result of an investigation which followed, the deficiency referred to on page 17 was discovered.

Another case which may be instanced by way of illustration is that of the Barras Green Working Mens'

Club and Institute. In this case, the auditor who signed the return for 1927 reported that he considered the cash in hand was much too high and, towards the end of 1928, the suggestion was made to him by the Registrar that he should, at December 31st, count the cash in hand. The auditor replied that he would not be in a position to do this as he had received no notification of his appointment for 1928, and, if the club followed its usual practice, would receive no notification until the accounts were ready for audit some time in 1929. The club was written to on the subject but, by the time that a reply was received, a deficiency in the secretary's cash had been suspected by the club and the secretary removed from office. The auditor appointed for 1928 was not the same as for the previous year and the new auditor was instructed to make an investigation of the accounts, with the result that a deficiency of £254 was discovered. The club has promised that, in future, it will see that its auditor is appointed at the beginning of the financial year for which he is to act instead of at the beginning of the year following.

A matter which perhaps is worthy of special mention, because it may place auditors and officials on their guard, arose out of the deficiency in the accounts of the Huddersfield Friendly and Trade Societies' Club. The official in question was the secretary and the club had paid premiums on a fidelity guarantee policy which it thought covered the secretary then in office for £100. On looking into the policy, however, when the deficiency was discovered, it was found that the policy still stood in the name of the secretary's predecessor. Apparently neither the auditors nor the persons responsible for the management of the club had made it their duty to see that the policy was altered to correspond with the change in the secretaryship. As a result of this oversight, the club lost its right to claim under the policy.

Dublin Incorporated Accountants' Students' Society.

ANNUAL MEETING.

The annual general meeting of the above Society was held on September 18th. Mr. J. G. Dowling, A.S.A.A., Vice-President, presided in the absence of the President, Mr. R. J. Kidney, F.S.A.A. The meeting was well attended.

The Chairman congratulated the members of the Society who were successful at the Incorporated Accountants' examinations held during the session 1930-31.

The result of the election of Officers for 1931-32 was as follows: President, Mr. R. L. Reid, A.S.A.A.; Vice-Presidents, Mr. R. J. Kidney, F.S.A.A., Mr. A. J. Walkey, F.S.A.A.; Hon. Treasurer, Mr. R. A. Kidney; Hon. Secretary, Mr. K. P. Barry; Committee, Mr. J. P. G. Coyle, Mr. S. K. Weir, and Mr. M. F. Matthews; Hon. Auditor, Mr. J. A. Caufield, A.S.A.A.

LONDON'S LORD MAYOR (ELECT).

Sir Maurice Jenks, F.C.A., was on the 29th ultimo elected Lord Mayor of London for the year commencing November 9th. On the previous day he completed his period of office as Sheriff and an official intimation was received at the same time that the King was pleased to confer upon him the honour of Knighthood. The pressure of events in the City Corporation during recent times has compelled certain Aldermen to serve as Sheriff and Lord Mayor in succeeding years, involving a heavy strain on business and professional men. Sir Maurice Jenks has our best wishes for his success, especially having regard to the disturbed position of international finance and our home industries.

Mechanisation in English Banks.

A LECTURE delivered before the Incorporated Accountants Students' Society of London and District by

Mr. C. R. ROBSON, Cert.A.I.B.,
Midland Bank, Machines Department.

The chair was occupied by Mr. G. ROBY PRIDIE, Vice-President of the Society.

Mr. ROBSON said: The least observant amongst us must realise that mechanisation is nothing new. Transport is mechanised, industry is mechanised, and even the Army now has a mechanised section. We cannot, I think, deny the advantages that have accrued to the community in general by the steady development of mechanisation, particularly in industry.

What we are concerned with this evening is mechanisation as it has been introduced into English banking. Perhaps the first machine introduced into a bank was the typewriter, followed closely by the copying machine. Then followed the adding machine, first used in my bank in 1902. To-day, if we have time to stop to ponder, would it not seem impossible to carry on in an office of any size without those three machines I have mentioned. Imagine the writing of all correspondence and transcription by hand; imagine yourself in the clearing section of a London bank with thousands and thousands of cheques to list by hand, and then to cast. "Nightmare" hardly describes it. Such is our outlook on, and opinion of, labour-saving devices that have been in use for many years. Following the typewriter and the adding machine came the calculator. This is a most useful machine, but its utility in banks has been more or less confined to working out foreign exchange calculations, and for that reason the machine is not much known outside London, and one or two big provincial centres. It is possible that the calculating machine may become more widely known as its uses become adaptable to other transactions in banks. For example, it is possible in the future that the calculator may play an important part in the half-yearly balance.

There is also a machine called the "Powers," used at the head offices of certain banks for handling Bank of England dividends and club subscriptions. This machine can sort cards at the rate of 350 per minute, from section order to alphabetical order, and *vice versa*. A machine called the "Addressograph" is also in fairly common use in London.

We now come to the machine that has really brought to the notice of bank clerks the word "mechanisation." I refer to the ledger posting machine. The acceptance by the banks of mechanical ledger posting, involving as it does a loose leaf system of ledgers, is as great a revolution in the banking world as was the French Revolution, politically. The banks have ever been conservative in their methods, and the mention of loose leaf ledgers a few years ago would have been laughed out of court. Yet the system is with us to-day. Why? Because the banks, in their endeavours to reduce overhead charges, were forced to consider the system of mechanical posting, and once convinced of the speed, the accuracy and the efficiency of the system offered, its adoption by all the banks is only a question of time. From the banks' point of view economy with efficiency is the beginning and the end of their problem. The new system is, without doubt, very efficient, and not only does it provide an economy in overhead charges, but also an economy

in floor space. Thus the banks are obtaining important economies, but I do not wish to infer that the gain is one-sided, for not only is the new system an advantage to the banks, but it is also an advantage to the bank staffs and to the bank customers. These points will be dealt with later in my address when dealing with a comparison of the old and the new systems.

THE LEDGER POSTING MACHINE.

It is possible that some members of my audience have had practical experience of the ledger posting machine, but probably the majority of you have not, so that a short description of the machine will not be out of place. From photographs that may have come to your notice (I have one here) you will have observed that the keyboard is very similar to an ordinary adding machine. On the left are the date keys, then come keys bearing letters that give in an abbreviated form a description of the items to be posted, then follow the number keys, used for recording cheque numbers when posting, and, lastly, the familiar pounds, shillings and pence. The machine is worked by electrical power. The principle is simplicity itself. There are four distinct compartments—the crossfooter, the debit register, the credit register and the balance register. The compartment called the crossfooter adds and substracts horizontally, and throws out the final balance of the account; the three other registers, the debit, credit, and the balance register, all add vertically.

Now, when the operator inserts a ledger sheet for posting she first of all records the starting balance. If the starting balance is a credit one, all that has to be done is to depress the keys required; but if the balance to be picked up is debit the operator must pull a little lever on the left of the machine into the debit or subtract position. Then she depresses the tabulating bar on the right of the machine. The amount picked up, either debit or credit, according to whether or not the subtract lever has been used, is then recorded on the ledger sheet in what is called the "pick-up balance" column, and the carriage of the machine automatically tabulates along to the debit position. Whilst in the debit position, the subtract or debit lever, you will no doubt have guessed, remains down in the appropriate position. The required number of debits are then posted. It should be noted that cheque numbers are used, not payees names, except on machines with a typewriter attachment, and then only when specially required by a customer. You will appreciate that a good deal of extra time is taken up in typing payees' names as compared with the insertion of cheque numbers. When the last debit for the account has been posted, and not before, the tabulating bar is again depressed and causes the carriage to tabulate into the credit position. As the carriage moves along, the debit or subtract lever I have told you of, springs up automatically out of the debit position. Our machine is now standing in the credit position. The operator depresses the requisite abbreviation keys and posts the credit items. Having posted the last credit item, the carriage of the machine moves into the "new balance" position immediately the tabulating bar is again depressed. Now, all this time you may have wondered how several debit or credit items are posted to the same account; this is, of course, the function of the vertical posting bar. This bar is the small bar on the right of the machine (nearest the operator) which, when depressed, causes the machine carriage to feed up one space. I always find it homely to speak about a bar; it is a term so easily understood. Now, there is still another bar that I must bring to your notice. It is situated in the top right-hand corner of the machine, and is called the skip bar. The skip bar, when depressed, causes the machine carriage to tabulate from the debit position right across to the new balance position. The carriage does not stop in the credit position, and obviously the operator uses the skip bar when she has posted debits to an account, and has no credit to post for that account. The skip bar is very useful for posting staff accounts, for it is seldom necessary in such cases to operate in the credit position. Pay day is, of course, the exception.

Now, having tied up your brains in a double knot with this wealth of detail, I will endeavour to extricate you by administering a little more dope. If, in my halting way, I can convey to you the working of the four registers at each stage of the posting, you will, I think, begin to see daylight.

First of all a balance is picked up—either debit or credit. That balance goes into the crossfooter register which, you will remember, is the one that works horizontally. When the debit items are posted they go into two registers, *i.e.*, the crossfooter and the debit register. In the crossfooter they are added or subtracted according to whether the starting balance was debit or credit. The credit items, when posted, also go into two registers, *i.e.*, the crossfooter and the credit register. Thus we have reached the stage where we have picked up a balance, posted some debits, and some credits, and have three registers totalling in the machine what we have done. By depressing the total key and also the tabulating bar the crossfooter register, which has been adding or subtracting across the sheet, gives the new balance. Now the crossfooter will only give the new balance straight away if the customer's account happens to be in credit. If the balance is a debit one the machine refuses to perform its natural function; it refuses absolutely to give a debit balance until it is coaxed. The coaxing consists of pulling down that little lever called the "subtract lever," then depressing the tabulating bar twice, followed by the depression of the "total" key and one more depression on the tabulating bar. Those extra operations necessary to obtain a debit balance represent, as you will appreciate, constructive notice to the operator that an account is overdrawn. Credit balances are printed in black, and debit balances are printed in red, on the ledgers and statements. The former balances are followed by a star, in black, and the latter balances by the letters "O.D.," signifying overdrawn, in red print.

Immediately the new balance has been struck the carriage of the machines slides back automatically to the pick-up position ready for the next ledger sheet. All new balances struck are accumulated in the fourth register, namely, the "Balance register."

Thus we have used four registers. The crossfooter, the debit, the credit and the balance registers respectively. The next step is to clear these registers at the end of each run of posting. The operator does this in the same order as that in which the registers are used. Firstly, she clears her crossfooter register, which, of course, should have no balance to record as the crossfooter empties itself every time a new balance is struck. Secondly, the debit register is cleared, and the figure produced, followed by a letter "D" represents the grand total of debit items posted. Thirdly, the credit register is cleared and this figure records the grand total of credit items posted. Lastly, the balance register, when cleared, gives the grand total of new balances struck, both debit and credit added together. (Chart No. 1.)

At the end of each run of posting the machine produces a slip of paper called a tally roll. On the tally roll is

recorded every old balance picked up, every debit posted, every credit posted, and every credit balance struck. It does not record new debit balances. Right at the end, after the registers are cleared, appear the grand total of debits, of credits, and of new balances.

PRINCIPLES OF THE NEW SYSTEM.

Under the old system of ledger posting by hand all vouchers for posting were collected by the ledger clerks, sorted, and posted direct into the ledgers. Then the day book clerks listed the account holders' names and amounts in the current account books. The check consisted of calling back the items in the current account books with the items posted to the ledgers. Pass books, if they happened to be at the bank, were written up from the ledgers (in some cases from the vouchers), the check consisting of the agreement of the ledger balance and the pass book balance. Once every week the ledgers were balanced collectively. Now, balance night was never very popular, particularly if differences kept creeping in. Checking back for the week was often a painful process. But that was the old system. Under the new, the first thing that strikes one is that the flow of vouchers has entirely changed. The vouchers go first to the day book clerks, are sorted, and listed by machine (amounts only) in sections, on the current account sheets. They are then passed to the ledger operators. The operator posts the batch of vouchers, and you will remember when describing the machine I told you that a tally roll or long slip of paper was produced. All items posted are recorded on this slip and at the end appear the total of debits and the total of credits that have passed through the machine. These totals are at once compared with the totals on the current account sheets. If there is a difference it can be rectified immediately, for the vouchers are still in the operator's hands. This process of posting batches of vouchers is repeated several times during the day. Each "run" or batch is agreed in total as you go along. Both the day book clerks and the ledger operators carry their batch totals forward from batch to batch, so that at the end of the day the final totals of debits and credits are automatically produced and agreed. This proves that for every debit and credit passed through the current account sheets a corresponding debit and credit has been posted to the ledgers.

OFFSETTING.

As the operator replaces a ledger sheet in the tray after posting, she pulls it out to the right of the main body of sheets. This is called "offsetting" the sheet, and at the end of the day all the accounts that have worked are "offset" in the tray. At this point there are actually two systems in operation in one bank. One is for the operator to run through the "offset" sheets and list the numbers of the accounts and the balances. The other is for the operator to pick each "offset" sheet out of the tray, feed it into the machine, and copy the balance in the interest portion of the sheet. In both cases the machine produces a tally roll, and on this slip is recorded every credit balance and every debit balance, the latter being distinguished from the former by means of a minus sign or the letters "O.D." that follow the amount. At the end of the tally roll appear the grand total of the debit balances and the grand total of credit balances, or one total of debit and credit balances added together.

STATEMENTS—POSTING.

I mentioned the fact that the ledgers were posted during the day in a series of "runs" or batches of vouchers. The next step is to sort up the vouchers into one lot in readiness for posting the statements. The statements are posted in one run. The operator keeps at her side the "offset balance tally roll" on which is recorded the balances taken from the ledgers, and as she posts each statement she compares the new balance shown with the corresponding balance on the tally roll. As each balance is agreed the balance on the tally roll is ticked up. When the section of statements has been posted the operator clears the machine registers and the statement tally roll produced records the sum of debit items posted, the sum of credit items posted, and also a figure which represents the sum of every new balance struck (both Dr. and Cr. added together).

BALANCING.

1. The total debits and credits on the statement tally roll are compared with the day book totals. (This proves that for every debit and credit passed through the current account sheets a corresponding debit and credit has been posted to the statements.)

2. The offset balance tally roll is then taken, and the total of debit balances and the total of credit balances are added together. The sum of these totals is agreed with the total of balances (Dr. and Cr. together) on the statement tally roll. (This proves that collectively the ledger balances agree with the statement balances.)

3. Final proof that the correct amount has been posted to the correct account was proved by the operator as she posted the statements and ticked off each balance with the offset balance tally roll.

That completes the daily balance. My exposition of it may have seemed involved, but in actual fact each operation and each check is very simple. There is, of course, still a weekly balance of ledgers, but as the ledgers are proved daily, the weekly balance is simply a matter of listing the various balances by machine and agreeing the totals—a very quick operation compared with the old way. There is still another check, for once every month the turnover on current account must be taken out and agreed. This is also a quick operation and seldom gives trouble.

SECONDARY MACHINES.

The most important of the secondary machines is the Shuttle Duplex. It is described as "two adding machines in one," which means that it has two separate registers. The upper register is the credit register and the lower is the debit. It lists and adds, simultaneously, debit and credit items, either in a straight line or by shuttling from one column to another. Under the new system the Shuttle Duplex machine is used chiefly for listing items, debit and credit, on the current account sheets. It is also useful for the supplementary ledger posting system and, of course, for all forms of straight listing. When in use for the Batch system of remittance or waste, the use of the transfer total key, which transfers a balance from one register to the other, is most useful and saves time.

Another machine that is very useful is the portable adding machine. It weighs only 19 lbs. and is truly portable. It is, of course, a one register straight listing machine and its uses extend over the whole field covered by a Shuttle Duplex, with the exception of new system current account listing.

Both machines are used for taking out ledger trial balances, but, of course, in the case of the portable machine debit and credit balances must be extracted in two operations.

The calculator is still confined to London; its uses are more or less confined to foreign exchange transactions. But it is possible, as I have already mentioned, that in the

future we may see the calculator utilised for half-yearly balance work.

COMPARISON IN SYSTEMS—OLD AND NEW.

In comparing the two systems, the old and new, one is almost forced to the conclusion that the balance of advantage lies with the new system. There are five main points that practically force us to the conclusion, as follows :—

1. The flexibility of the new system, that lends itself to a great expansion of business without undue strain on the staff.

2. The conservation of floor space and storage room. In busy centres ground floor space is expensive. In some cases it was found impossible to obtain extra floor space to accommodate an increased volume of business. The machines need less space than under the old system, and have solved that particular problem.

3. *Organisation.*—The new system lends itself to a better and more perfect organisation. The haphazard methods of the old way are replaced by a system that makes for greater efficiency and better service.

4. *Economy.*—The new system is more economical. The cost of a book is in the binding—the new system introduces a neat loose leaf system and the saving in stationery alone must be great. The same volume of work can be done with fewer staff ; female operators replace the male ledger clerks.

5. Benefit to the banks, the staffs and the bank customers. Economy with efficiency is the beginning and the end of the problem for the banks, and the new system gives it without doubt. We will discuss the question of bank personnel presently ; at the moment we will proceed with our comparison of systems, winding up with a consideration of the advantages that accrue to the bank customers.

In submitting the new system to you and comparing the methods of procedure, you will no doubt have realised that the daily check instituted under the new system is a tremendous advance on the old method. From the point of view of accountancy it is very necessary that the work of a bank should be completely finished and balanced each twenty-four hours—the new system does that actually, not theoretically. Ledgers are completely balanced every day under the machine method—that compares with a weekly balance under the old method. Pass books are replaced by statements, and these are posted up to date daily. This brings us to the customers' point of view.

ADVANTAGES TO BANK CUSTOMERS.

The most important factor from the point of view of the bank customer is Service. Generally speaking, this means pass book service, for managerial and higher official service has usually been of a high order. Now the pass book service under the old system left much to be desired. Keeping customers waiting while pass books were written up was the cause of much annoyance. The carrying of the pass book to and from the bank, or posting it to the bank, was also not greatly relished by customers. More speed and better service has long been indicated in this respect and the machine system has overcome the difficulty. A legible machined statement has replaced the pass book. The statement is posted up to date daily. It is always ready. There need be no waiting. Indeed, if the customer so desires the statement can be forwarded by post daily, weekly, monthly, quarterly, or on any fixed date or dates selected by him. Notwithstanding the establishment of definite periods for the issue of statements, made between customer and bank, it is always possible for the customer to call at the bank on any day and obtain his statement. So much for service.

Now, with regard to the information supplied by a pass book and a statement respectively, a great advantage to the customer lies in the fact that the balance of the account is clearly shown on the statement. If the customer's account is in credit the balance is printed in black, if the account is overdrawn the balance is printed in red. There is thus no possible cause for doubt in the mind of a customer as to whether he is on the right side or not. Again, there is no question of a bad figure misleading a customer, all machined figures are uniform. On the credit side every item is preceded by an indication (in abbreviated form) of the source of the credit. The abbreviations used are fully explained at the foot of each statement. On the debit side the items are posted by cheque numbers. In some quarters this one fact is looked upon with disfavour. The critics complain that a customer cannot see at a glance to whom he has paid his money. But if we carefully consider three factors in this connection we shall find that the objection really does not carry much weight. To a firm, of course, this point does not arise, as it has been found in practice that firms and corporations prefer the use of cheque numbers. The critics usually refer to private customers' accounts.

Now, firstly, let us consider what information the old pass book gave us on the debit side. The name of the payee. No, not quite ! It is more accurate to say the surname of the payee, and it frequently happened that the payee's name was a double name, or joint names, and frequently only one of the names got into the pass book. For example, "Brown and Robinson" would sometimes be posted under "Brown," sometimes under "Robinson." "Smith, Jones & Co." would sometimes be written as "Smith" and sometimes "Jones." Again, it was occasionally difficult to decipher a name in a pass book (not to be wondered at really when the pace at which bank clerks have to write is taken into account). Frequently in the former case, and certainly always in the latter, the customer was forced to look up his cheque stub to ascertain the correct name of the payee. If that happened with the old pass book, is it really a trouble or hardship to post cheques to statements by the number ?

Secondly, let us consider the advantage to private bank customers of posting by cheque numbers. What a customer desires above all in his dealings with his bank is secrecy. With the old pass book it was often found necessary to utilise the services of a third party to convey the book to and from the bank ; with the new statement less information is conveyed to a stranger, for the meaning of the cheque numbers is known to the customer alone. Then there is no question of using a third party to obtain statements ; it is quite normal that they should be posted on.

Now, the third point I propose to submit to you is somewhat novel. It arises from the fact that in practice many customers used to make pencil notes in their pass books against certain payments. Unfortunately, from the customer's point of view, the clerk at the bank invariably rubbed out these little jottings and thus destroyed the customer's mnemonic. What a boon must be the statement to these customers. They can make as many notes thereon as they wish and keep the record permanently, for statements are not returned to the bank.

BANK PERSONNEL—PRESENT AND FUTURE.

In considering bank personnel under the new system it is necessary, I think, to split our subject into three

distinct periods. I would call the periods (1) Period of introduction; (2) Period of transition; (3) Period of complete mechanisation.

Periods 1 and 2 run in double harness, for as soon as Period 1 starts so does Period 2. The transfer and re-transfer of staff then begins, but when Period 1 ends Period 2 will not end with it.

What is the Effect on Personnel of Period 1?

The introduction of machinery has had a tendency to separate the wheat from the chaff. Where men are incapable of organising and carrying through the work of the preparation they are relieved of the responsibility.

There are key positions in any system and the most capable men are being fitted into these positions. In short, the effect of Period 1 is that the clerk with an alert mind has a unique chance to show his worth.

Period 1 will end when the last branch in any bank is allotted its mechanised quota.

What of Period 2? The Period of Transition.

It starts almost simultaneously with Period 1 but not quite, as staff releases are not made at machined offices for some little time after installation.

This period, in general, is the worst period. But it is not the worst period for all the staff. For some it is the best—because it lifts them out of the rut, and already scores of men must be blessing the machines for being the means whereby they acquired a new zest for work, and in some cases promotion.

How, then, is it the worst period? In this manner. There is a surplus staff and recruitment has practically ceased. Pending the absorption of surplus staff by expanding business and wastage at the top, there is a tendency for the great majority of staff in definite jobs to remain at a standstill. The adverse effect of this is greater on younger men than it is on older men, for whereas an extended period on senior work does little or no harm, we cannot say the same of an extended period on junior work.

So much for Period 2. The period will last as long as Period 1 plus an indefinite period consisting of the extra time needed to absorb the surplus staff.

Now we come to Period 3. It is the consideration of this period—the period of complete mechanisation and complete settlement of the staff to the new conditions—that will be our guide, and will help us to view with favour or with disfavour, the introduction of office machinery into banks.

If bank staffs are going to be in clover when we reach the promised land, then surely Periods 1 and 2 will have been well worth while.

What do we Know of Period 3?

We know that over 30,000 banks abroad are using office machinery. We know, also, that our Post Office Savings Bank is fairly well mechanised. We know, further, that an office in this country with its mechanised quota supplied, which has been running the new system from six to twelve months, is as a separate unit, practically operating in Period 3. If we survey the whole field of banking from the angle of the separate unit branch, we shall see, so far as bank personnel is concerned, three main changes as compared with pre-new system conditions. We shall see, firstly, a reduced total personnel. That reduced total personnel will consist of a larger proportion of female staff than hitherto. We shall see, secondly, a better, more elastic and more efficient system in operation. That implies a better training for the staff, for ledger routine will be cut out. There is some difference in opinion on the benefit or otherwise to a clerk by the elimination of ledger routine. That much knowledge was gained by posting ledgers by hand is an argument, in my opinion, that is overrated. Ten years on ledgers did not spell knowledge; if it spelt anything it was surely "rut" or "decay"; in any case ledger posting never made a clerk a banker.

We shall see, thirdly, a staff with more leisure. That seems fairly definite, for machines properly handled and understood can always cope with rushes of work, and consequently the bank clerk of the not very distant future should, on the average, have more leisure. Having more leisure does not, however, imply all sugar. It implies giving as well as taking. Giving what? Giving time and study to the profession of banking. Why? Because the ambitious, with more time in which to perfect their studies, will render competition decidedly keener.

That is my picture of Period 3; it is a rosy picture and appears to make Periods 1 and 2 well worth while.

There is one factor unknown at the present time, and that is the full extent of mechanisation. Compared with the machines in use in the banks in America it would appear that we in this country were merely dabbling in mechanisation. In New York, U.S.A., they have machines for nearly all types of bank work, including addressographs, dictaphones, stamping machines, robot cashiers, coin sorting machines, &c. Our activities, on the other hand, are more closely confined at the present time to ledger posting machines and cheque listing machines. Considerable progress has been made in my own bank. At the end of 1930 there were 120 branches using ledger posting machines, and these machines—450 in number—were handling over seven million vouchers per month. At another 200-300 branches the smaller adding machines are in use.

All this labour saving machinery has resulted, as one would naturally expect, in the creation of redundant staff; but, speaking definitely for my own bank, and I believe it applies to all the English banks, none of these redundant men are being thrown upon the labour market. The surplus is being absorbed gradually, partly by curtailing the recruitment of new juniors, partly by opening new branches, and partly by natural wastage due to deaths and retirements. About 25 per cent. only of the displaced staff is unplaced in a definite post at any given time.

Now, in conclusion, I want you to carry away a definite impression on the subject that I have had the honour to place before you. It is this, that mechanisation in the banks has, so far, been beneficial to all concerned. The bank customer gets a better service at a mechanised branch; the banks gain important economies and improved system checking, and the staffs are relieved of much drudgery.

Discussion.

The CHAIRMAN: We have listened to a very interesting lecture on a subject with which, perhaps, many of us are not very familiar. Applied mechanisation, kept under proper control and intelligently used, is unquestionably one of the most efficient products of modern times. In the course of his address, the Lecturer spoke of the "pick-up." I am not quite clear from what Mr. Robson said that the machine does this work automatically—my impression is that the "pick-up" of the closing figures has to be done

by eyesight—that is to say, the operator has to start the new line or set of figures by looking at the closing balance and then to type in the said figures with which the new line starts. If I am correct, it seems to me that is where the exercise of skilful accuracy by the operator is called for, and the weakness of the human element has to be specially guarded against. During the last few years I have had some little experience of the mechanical system of book-keeping and statistical recording, and I have found it most interesting. To my knowledge, a lady clerk, by the use of a Powers machine, has succeeded in analysing 900 purchase invoices in the course of one hour. In this analysis a series of code numbers or letters were used covering the name of the suppliers, identification of the ledger account, description of the articles supplied, the quantities, cost and selling prices of the goods, and the department and branch to which the goods were allocated. The operator in question, a member of my client's staff, was undergoing a test at the time, but the normal average of invoices so analysed per day would, of course, work out at a much lower average than 900 per hour. The organisation concerned turned over roughly £1,250,000 of sales per annum, primarily composed of quite small items, but under the modern system of mechanisation they are regularly enabled to obtain the result of one week's working completely analysed, fully tabulated, and returned to the head office within 48 hours of the close of the week; that is to say, the week's business ending at closing time on Saturday is all fully recorded at the head office by the following Tuesday night. In another concern in which I am interested, the introduction of mechanical methods for book-keeping has had the practical result of enabling my clients (without discharging any of their staff) to send out their statements to customers and travellers at least ten days earlier each month, with the result that a far quicker and regular collection of their book debts is now the normal state of affairs. This, I think, speaks well for the efficient working of the system when applied to the practical politics of daily business life. I am sure we all owe a debt of gratitude to the Midland Bank, and in particular to Mr. Robson, for his presence with us this evening, and I am relying upon the students to demonstrate their appreciation by a rapid fire of questions, to which the Lecturer will have pleasure in responding.

Mr. RING: Does not the Lecturer think that there is a danger in adopting the loose-leaf system, owing to the possibility of losing a sheet?

Mr. A. V. HUSSEY, Incorporated Accountant: As a matter of coincidence and not design I was instructed by my firm to spend this afternoon at the Business Efficiency Exhibition at the White City, and I am afraid that the mechanisation I saw there rather led me to believe that in the near future you will merely want someone to attend at the bank in the morning to turn a key and open the door, and to lock it at night. I saw machines that were capable of doing anything associated with bank work; even opening the mail in the morning was done mechanically, so many thousands being done per hour. Generally speaking, everything I saw indicated that so far as male assistance is concerned, the banks will not require much of it in the near future. The Chairman has referred to a case of a machine listing purchase invoices at the rate of 900 per hour. I do not know whether it is the same concern, but I had the pleasure of being conducted over a counting house in the Midlands which, I believe, is claimed to be the show counting house of England. I think that before the War there were approximately 250 employed in the counting house. I went over that counting house about twelve months ago. I was introduced to the accountant, but he never went into the counting house. I was also introduced to the secretary, and to one young man of approximately 25 years of age, who had been in the firm's employ eight years. He commenced as an invoice clerk, and he told me he was now an engineer. Throughout that counting house there was not a single person employed above the age of about twenty, and not a male clerk was to be seen, apart from the young man to whom I have referred. The whole of the detailed records of the turnover of that large concern was dealt withmerely by female labour mainly under the age of twenty. The only point I wish to ask the Lecturer is this: Does he think that the mechanisation of the banks, and its adoption in commerce generally, is going to lead us to more competition for employment? If so, I think the finest thing we can do is to seek better and more fruitful fields on the land, in Canada, New Zealand, or elsewhere, rather than endeavour to be accountants. I would like the Lecturer to give us some idea as to what he thinks is going to be the position with regard to male labour in offices generally within the next five years if all the banks and offices generally are going over to machinery to the extent of the counting house to which I have referred.

A STUDENT: I should like to raise one point with the Lecturer, as to only putting the numbers of the cheques in the pass book instead of the full names. I have found firms who regarded their pass books practically as their cash books, and under the new system they will not be able to do so. Having the full names in the pass book also enables the auditors to check the transactions; they do not rely on that entirely, but it helps as a double check. Then there is the question of cheques for similar amounts, and cases of that kind occur frequently, so that it seems to me there is bound to be confusion. Lastly, there is the income tax point of view. Accountants may have to go back several years and investigate transactions recorded in a pass book of a firm who may have avoided payment of tax, and if only the numbers of the cheques can be relied upon it cannot assist the accountant, or the Inspector of Taxes, by giving them much information.

Mr. FRICKER: I have heard that there is a machine which automatically jams if an error is made by the operator in taking up the balance. Perhaps the Lecturer will confirm that. Then I am not quite clear as to the operation of the proof that items were posted to the correct accounts. I gathered that in total the postings could be checked, but I was not clear that there was proof that they were posted correctly individually.

Mr. KEYWORTH: The Lecturer said something about calculating machines. I think he said that they were only used for calculations in connection with foreign exchange. Can he explain how interest on overdrafts and items of that nature are calculated?

LECTURER'S REPLY.

Mr. ROBSON: The first questioner referred to the loss of statements or ledger sheets under the loose leaf system. He said that the sheets were not bound in a book, and consequently one might be lost. I think I am safe in saying that if public opinion on this particular point had been as educated twenty years ago as it is to-day, we would have had the loose leaf system years and years ago. In the banks you have very conservative organisations. They are

very slow to make a change, and I think that the acceptance of the loose leaf system by the banks is proof to the world at large that this system is better than the bound book. Naturally, of course, we impose a very careful check on all our ledger sheets. Everything that is loose leaf in the system is very carefully guarded and checked, and there is no possibility whatever of the loss of a sheet, providing the instructions are carried out. The second question was with reference to the progress of mechanisation, and the questioner's visit to the Business Efficiency Exhibition. I referred in the course of my remarks to the possibilities of mechanisation; that is to say, I told you they were an unknown quantity at the present time. We do not know how far mechanisation will go eventually. It is quite true that the proportion of female staff will increase as compared with the male staff, because it has been decided, rightly or wrongly—I think rightly—that ladies are better able to work these machines than men. Passing to the benefits to customers—the benefits of cheque numbers—I hope my questioner does not seriously suggest that the bank is responsible for keeping the books of its customers. The bank is surely responsible for keeping the record of the transactions that go through the bank, but, as a body of accountants, you do not expect the banks to supply a pass book and that pass book to be the customer's cash book record. You do not expect it as accountants, although I know you find it sometimes. On the question of taxation, very often it happens that you do have to go back five, six, or seven years, and the suggestion is that with loose leaf statements you might not find the sheet seven years back. Well, of course, you might not find a pass book seven years back. If necessary, you could always get a duplicate statement from the bank. The bank records do not disappear, even if the customer's records do. On the question of picking up the balances, it is perfectly true you are in the hands of your operator. If the operator cares to put in the wrong amount, she has made a mistake and the machine does not put her right; but she does not get very far with it, because the system of check is so perfect that no mistakes can get through. I am not aware of any machine that actually jams when the wrong amount has been put into it. The next question referred to calculating machines for working overdrafts. What we do is, we extend what we call "decimals." The customer has an account, and he has a certain balance, and we extend what we call decimals—they are not decimals, of course, they are products. At the end of the half year we add up these products and get a total and work it out at a certain rate of interest. You can do all that on calculating machines. Supposing you had 1,000,000 products at 4 per cent., you divide the products by 4 and multiply by 365, and you do that on the calculator. It takes about five seconds, and it gives you the answer. That is the use the calculating machine might be put to at the half-yearly balance. As to the final proof of individual postings, what we claim is that we prove daily that the correct amount has been posted to the correct account. We post our ledgers, and having done so, every account that has moved is offset in the right of the tray. Our tray is standing there, every account that has moved is sticking out to the right, and you have a run of cards sticking out. The operator goes through those cards and extracts every new balance. These balances appear one after the other on the tally roll, and at the end is the total of all those balances. That tally roll is called the "ledger offset tally roll." Now when we post the statements, the statements are in the same order as the ledger sheets, and the ledger offset tally roll is kept alongside for easy reference. As the statements come out in the same order as the ledger balances, the first statement balance should agree with the first balance on the tally roll, and so on right through the list. That is proving every statement balance with every ledger balance, and is conclusive proof that the correct amount has been posted to the correct account.

Mr. THOMAS KEENS, in proposing a vote of thanks to the Lecturer, said: The lecture has been an extraordinarily interesting one, and on a branch of science with which it is incumbent upon us to be well acquainted, although I must confess the whole thing fills me with absolute horror. It is the only satisfaction I have got for being past my first youth, because at any rate, I have had my chance, and I am not at all sure that the mechanical robot of the future is not going to render a large number of people without occupation in this respect. I echo the views of one of the speakers as to whether or not the wheat lands of Canada or cotton growing in Kenya does not seem to have very real attractions for the ambitious man, because, as far as I understand it, I can see the advantage of the daily sheet to the customer of the bank, but I sympathise with the man who is investigating back tax for, say, twenty years, for he will undoubtedly have some difficulty. I came here this evening because I am just in the throes of mechanisation for a County Council, being Chairman of the Finance Committee of that body. The County Council pays all its workmen's wages by cheque—it is obvious that nobody can go round the county with a cash box and pay out amounts, and consequently we pay by cheque, and the cheques have become current coin in the county. They are negotiable instruments. Every tradesman will take them. They do not come back quickly, and I am wondering what will happen if only numbers are recorded, and not the names on the cheques. However, the point is, we have got to do it, because we have, as accountants, to know the very latest operations. The only point on which I disagree with the Lecturer to-night is that I am puzzled to know where the advantage to the bank clerk comes in. It is perfectly true he will have more leisure, but then he will not have any pay. There are a large number of people in this country—2,600,000 people—who have leisure to-day, and I have not heard that it has been of very great advantage to them or to this country for them to be in that position. It is perfectly true that the banks, as great employers of labour, are not discharging staffs—it would be a monstrous thing if they did—but the point, nevertheless, remains, that the reduction of the personnel and the substitution of woman's labour for man's does mean that in the future a number of people who might have looked to banking as an occupation will be unable to do so. Therefore, I am not at all impressed with the extra leisure for the bank clerk. With regard to the typing of the statements as against the writing in the pass books, I am sympathetic, because I must confess that it varies so much from week to week that I defy a number of people to find out what are the names that ought to be written there. A little while ago a bishop wrote to *The Times* stating he had received a letter addressed to "Messrs. Bath and Wells." However, that is by the way. To my mind, it is a most serious outlook, but it is something we have got to know. After all, rationalisation is proceeding apace in every manufacturing industry. I am hoping that the statements of the economists are true, that all this rationalisation is going to increase the wealth of the world so much that we shall all be better off in the end, that we shall work fewer hours and have a higher standard of living, but at present I am not convinced. With regard to America, at the last International Congress on Accounting, which was held in New York two years ago, I headed a deputation of Incorporated Accountants. There was a

large hall attached to the Conference Hall which was absolutely filled with mechanical devices of every description. If the heat had not been so tropical I would have paid more attention to them. As it was, when I came from the Conference room the only thing I had in mind was a cold bath. But I thought it was a most wonderful thing that the organisers of the Conference should have thought of instructing us with regard to all these mechanical devices. When we talked to them, however, we found that it was not with any particular desire to improve our knowledge. The organisers of that Conference were cute enough to make the people who had those things to sell practically pay the expenses of the Conference by letting them space, and I came to the conclusion that I should take off my hat to the American accountants. The only other thing I have to say is this. One of my friends says he has been to the Business Efficiency Exhibition. We have thought it desirable that all the senior members of our staff should go to that exhibition in order that they may see the various things which are in use, and should have some practical knowledge of them, not knowing where they may meet them next, and not knowing when they may be called upon to advise a client as to what he should do. I thank the Lecturer very much indeed for his most informative, interesting and useful lecture on a subject which I consider to be perfectly horrible.

FLOODLIGHTING OF INCORPORATED ACCOUNTANTS' HALL.

We reproduce as a supplement to this issue a photograph of the exterior of Incorporated Accountants' Hall as it was floodlighted throughout September for the International Illumination Congress. During this period the Hall was visited by many Incorporated Accountants, on several occasions by the delegates to the Congress and, judging by the crowds and motor vehicles to be seen nightly outside the building, by thousands of the public.

Several public buildings were floodlighted during September, but the illumination of Incorporated Accountants' Hall was unique in that "Restlight" lamps—giving a daylight effect—were used. The primary object of these lamps, which are produced under the supervision of Mr. F. E. Lamplough, the well known glass technologist and inventor of "Vita-Glass," is to remove the damaging orange red excess in the spectrum of artificial light sources. The result is a genuinely white light, free of glare, which is in marked contrast to the effect produced by uncorrected light. The elaborate detail of the Hall was shown almost as clearly and naturally as by day, and it was particularly noticeable that the grey Portland stone and the lawn in the forecourt appeared in their true colours. Further relief was afforded by the adequate rendering of the light and shade, which is not achieved where floodlighting is applied without consideration of the characteristics of the building and the purpose for which it is to be illuminated.

The Society of Incorporated Accountants and Auditors is indebted to Mr. J. R. W. Alexander for arranging and supervising the floodlighting; Restlight Limited for supplying the lanterns; Belshaw & Co., Limited, for installing and maintaining the apparatus; the Metropolitan Electric Supply Company, Limited, for providing the current; and Mr. G. Marshall Smith for the photograph. Cream or blue crayon mounted copies of the photograph, size 12 ins. by 10 ins., can be obtained, price 10s. 6d. each, including packing and postage, from Mr. G. Marshall Smith, 33, Portland Road, Finsbury Park, London, N.4. An appropriate title will be added to the mount of the photograph, if request is made at the time of ordering.

The Provisions affecting Deduction of Income Tax.

A Lecture delivered before the Swansea and South-West Wales Society of Incorporated Accountants by

MR. A. STUART ALLEN,
Incorporated Accountant.

Mr. Allen said: I am honoured that you have asked me to address you, but I always think that taxation, despite its wide range and complexity, is a subject from which it is very difficult to select an aspect on which to read a paper to an accountancy body. Accountants, in the ordinary course of their profession, are constantly dealing with taxation in its practical application, and are keenly interested in anything which throws fresh light on the provisions which they are continually applying.

But on these everyday matters there is little to be said with which they are not of necessity familiar, while if a lecturer chooses some of the less well known provisions his hearers, while maintaining an appearance of polite interest, will harbour a conviction that their time might have been better employed in the consideration of points of greater practical utility.

In inviting attention this evening to the provisions affecting deduction of income tax, I am dealing with a subject that is extremely well known to all taxpayers and their advisers. In so far as I must traverse familiar ground I propose to do so as briefly as possible and, after a somewhat superficial general survey I trust I may be able to indicate some sidelights on the subject which may prove of interest to you.

Taxation at the source is so fundamental a principle of our taxation code that one is prone to accept it without any attempt to realise all that it involves. Once a source of income is found to exist, liability attaches thereto and the machinery for the assessing of the duty and its payment is then brought into operation. The person upon whom is imposed the duty of making the appropriate return and of paying the tax may have but a very slight beneficial interest in the income derived from the source, or even no interest at all, and the tax paid by him may, by the processes of deduction, be spread over a large circle of people, and in very many cases it would be impossible to identify all the persons on whose shoulders the burden of the tax would ultimately rest.

Sir Josiah Stamp, in his interesting work, "The Fundamental Principles of Taxation," devotes some space to a review of the changes in the general character of direct taxation in this and other countries. He points out that although the first incidence of a tax may be upon things, it is ultimately borne by persons, but he adduces examples to show that the first approach to personal taxation nearly always breaks down. Certainly it was not successful in this country. Pitt introduced an Income Tax in 1799 which was designed to be a direct tax on the total income of the individual, with certain abatements and reliefs for the smaller incomes.

With a rate of 10 per cent. this tax yielded, in the year 1801, a sum of about 5½ million pounds. In 1803 the basis of assessment was radically changed, sources of income being made the subject matter of assessment, the burden being passed on by the principle of deduction to every possible beneficiary from each source. Returns of total income were only required when a taxpayer sought to obtain the benefit of the abatements which the Act allowed for smaller incomes.

It is significant that in the year 1806, again with a 10 per cent. rate, the total yield was 11½ millions, or more than twice the sum realised five years earlier on the old basis.

Sir Josiah Stamp then refers to the tendency which has become noticeable in recent years for income tax in this country again to become more and more personal.

After 1803 a return of total income was necessary only if the taxpayer desired to obtain the benefit of exemption or simple abatement; then relief in respect of life assurance premiums was made dependent on annual payment of premiums bearing a certain proportion to the total income; later still the range of abatements was extended. Then differential rates were introduced varying with the total income, together with children allowances, &c., while with the development of the super tax the correct ascertainment of the total income of the individual became of prime importance.

Many of you will remember how simple it was a few years before the war to settle the liability of an ordinary trading firm, and you will groan—at least in spirit—when wrestling with the same problem to-day, recognising only too clearly the difficulties of solving correctly the problem of allocation between individual partners and the virtual impossibility of explaining the solution to the partners and of convincing them that the answer is correct for each *individual* concerned.

There is much gusty sighing for a return to the simplicity of the good old days, but a few moments' reflection on the rapidly increasing complexity of modern commerce and the high level of taxation now prevalent—and which seems only too likely to persist—makes it apparent that a simple levy on so complex a subject matter would result in a multitude of flagrant anomalies, and it seems probable that the present malcontents would change their groanings into a loud voiced clamour to be relieved of a remedy so infinitely worse than the disease.

It is amusing to reflect that the last important simplification—the abolition of the average under Schedule D—operates in all but the smaller cases to secure to the tax gatherer a richer harvest from any particular trader over any given period of time than would have been possible under the old method.

When all this has been said the fact remains that the taxation of the source of income is still the dominant principle, with its inevitable corollary of a process of deduction. I now propose to review the various provisions which, broadly speaking, authorise the transfer of taxation liability from payer to payee.

TENANTS AND LANDLORDS.

There are eleven Rules of No. 8 of Schedule A, mostly concerned to define the right of a tenant who has paid tax under the Schedule to recoup himself out of the rent payable to the landlord or owner of the property. The main point to notice is that a tenant paying property tax in the ordinary course must recover the same out of the first payment thereafter on account of rent and is not entitled to deduct any greater sum than the amount charged in respect of the property and actually paid by the tenant. There have been several cases, mostly of considerable antiquity, which make it clear that the rule is to be taken literally so far as the words "first payment thereafter" are concerned, and that a tenant omitting to deduct at the first opportunity forfeits his right to recover.

The limitation of the amount deductible to the tax actually charged on the property and paid by the tenant is readily understandable, as in normal cases the liability of the tenant to pay the tax only arises out of the principle of taxation of income at the source, so that as regards any particular property the precise tax payable, and no more, should be passed on to the owner. Like many other schemes which are notable for the simplicity of their conception, this provision has resulted in many anomalies in its practical application and, particularly since the War, there have been innumerable instances of landlords receiving rents wholly disproportionate to the Schedule A assessment on the rented property, thereby enjoying a legal immunity from tax which was the envy of those less fortunately placed. In fairness, it should be said that this phenomenon was confined, almost exclusively, to urban areas where the demand for properties to be rented led to a rapid rise in rentals which could not be reflected in the Schedule A assessments, partly owing to the method of periodic revaluation and partly because the provisions of Schedule A aim at the fixing of the rack rental value of any particular property, rather than the assessment of the rent actually payable.

Rule XI of No. 8 of Schedule A is worthy of comment, since it provides that as between an owner and a mortgagee, or any other person having a charge on a property, the owner's right of deduction is not to be restricted by the relief granted in respect of repairs under Rule VII of No. 5 of Schedule A.

INTEREST AND DIVIDENDS PAYABLE OUT OF PUBLIC REVENUES.

The next important provisions relating to deduction of tax are to be found in Schedule C, but with the operation of the Rules of this Schedule we, as accountants, are not concerned in practice.

INTEREST, &c., PAYABLE OUT OF RATES OR BY PAYING AGENTS ON BEHALF OF FOREIGN GOVERNMENTS, CORPORATIONS, &c.

Miscellaneous Rules VI and VII.—The same remarks apply to Rules VI and VII of the Miscellaneous Rules of Schedule D, which provide for the deduction of tax by officers of municipal corporations, paying agents, &c.

The foregoing epitomises the deduction provisions to be found in the Rules relating to the various Schedules of Charge, and there remain only the Rules embodied in the General Rules, All Schedules, which are designed to cover all cases not embraced by the Rules outlined above.

General Rules, All Schedules, Nos. XIX to XXI.—It is the comparatively brief provisions of Rules XIX, XX and XXI of the General Rules, All Schedules, in the Consolidation Act that are of the greatest general interest, and to which I wish to invite your detailed consideration.

Before doing so, however, I want to remind you that the Income Tax Act, 1918, was, as stated in its opening words, "An Act to Consolidate the Enactments relating to Income Tax," so that it was not intended to achieve more than a rearrangement and classification of previously existing provisions.

The Consolidation Act received the Royal Assent in August, 1918, and the Royal Commission on the Income Tax was appointed in 1919. Many of the recommendations of that Commission have since been grafted on to the foundation provided by the 1918 Act.

Rule XIX itself provides an excellent example of the method employed by the draughtsmen of the Consolidation Act. In large measure it is a repetition of sect. 102 of the Income Tax Act, 1842, and the parts of this section not confirmed in the Rule are to be found in Rule I of Case III of Schedule D and Rule VI of the Miscellaneous Rules of that Schedule.

No better reason for this piecemeal treatment of the

original section can be given than the criticism of the original sect. 102 by Lord Johnstone in the case of *Schulze* v. *Bensted* (7 T.C., 30), when he described it as a mixture of charging and collecting provisions. It seems, however, that the problem of completely resolving the mixture into its constituent elements was beyond human ingenuity, because in Rule XIX we still find "no assessment shall be made upon the person entitled to such interest, annuity or other annual payment, but the whole of those profits or gains *shall be assessed and charged* with tax on the person liable to the interest, annuity or annual payment."

I can only suggest that these words were introduced, *ex majore cautela*, as throughout the Act and the Schedules the deduction of any annual payment in arriving at the amount of assessable profits is specifically prohibited (paragraph L of Rule III of the Rules of Cases I and II of Schedule D is an instance), and it is difficult to see how "profits or gains brought into charge," as mentioned in Rule XIX itself could fail to comprise any yearly interest of money, annuity or other annual payment payable thereout.

These remarks on the scheme of the Consolidation Act have perhaps deflected me somewhat from the consideration of the Rules themselves, but I think they will assist your understanding of what I am about to say.

I suggest that these three Rules XIX, XX and XXI provide a comprehensive scheme for the transfer from the payer to the payee of tax, on interest annuities and other annual payments and dividends, the payer being primarily liable as the source of the income and the payee ultimately so, as the beneficial recipient in enjoyment of the income.

With all deference to the undoubted ability of the draughtsmen, I venture to suggest that a variation in the order of the Rules would have been an improvement, and that the positions of Rules XX and XXI should have been interchanged. However, if there were no more serious criticism of our income tax code than the mere sequence of the provisions, this country would be a happier place for its inhabitants—although probably a less fruitful field for our profession.

Paraphrasing the original Rule XIX very briefly, it provides that a person liable to make payment *wholly* out of profits or gains brought into charge, of any interest, annuity or other annual payment, shall be assessed and charged on the whole profits, and shall be entitled on making such payment to deduct an amount representing tax thereon at the rate or rates in force during the period of accrual, and the recipient shall allow such deduction.

Rule XXI as a complement provides that upon payment of any interest of money, annuity, or other annual payment charged with tax under Schedule D not payable or not wholly payable out of profits or gains brought into charge, the payer shall deduct an amount representing tax thereon at the rate in force at the date of payment.

I have deliberately omitted patent royalties, since these were not brought within the scheme until comparatively recently, and you will realise that I have also excluded the modification of the rate of tax to be deducted under Rule XIX which is effected by sect. 39 of the Finance Act, 1927. This is because I want to emphasise that the two Rules taken together are the real foundation on which rests the general right to deduct tax from all interest, annuities, &c., not separately dealt with under Schedules A and C.

It now becomes necessary to refer you to some of the decided cases for the judicial interpretation of the Rules.

Rule XIX.—"Any yearly interest of money, annuity or other annual payment."

Yearly Interest.—In the case of *Commissioners of Inland Revenue* v. *Sir Duncan Hay* (1924, 8 T.C., 636), Lord Anderson, in the Court of Session, Scotland, ventured upon a summary of the authorities defining the character of "yearly interest." I should be lacking in respect if I did anything but quote the learned Lord's remarks verbatim :—

> "Now the authorities referred to by Crown Counsel seem to me to establish these propositions, five in number: (1) That interest payable in respect of a short loan is not yearly interest (*Goslings* (1), 23 Q.B.D., 324). This, of course, is apart from the statutory exceptions created by sect. 36 of the Income Tax Act of 1918 in favour of bankers, stockbrokers, and so on. (2) That, in order that interest payable may be held to be yearly interest in the sense of the Income Tax Acts, the loan in respect of which interest is paid must have a measure of permanence. (3) That the loan must be of the nature—and this is pretty well expressing the second proposition in another form—that the loan must be of the nature of an investment (*Garston Overseers* (2), (1915, 3 K.B., 381). (4) That the loan must not be one repayable on demand (*Gateshead Corporation* (1914, 2 K.B., 883). And (5) that the loan must have a 'tract of future time' (per Lord Johnston in *Scottish North American Trust, Limited* (3), (1910, Session Cases 966, 973). These propositions are perhaps one proposition expressed in different forms, but they are the result of the authorities."

The facts of the case were that in the purchase and sale of certain estates advances had been made to Sir Duncan Hay by his solicitors, the total amount of the advances and the rate of interest both varied, the latter by reference to the bank rate. The final decision was that the total interest charged year by year was yearly interest properly deductible in arriving at total income.

Annuities.—Here again judicial reference to a number of the more important decisions is to be found in one case, namely, *Jones* v. *Commissioners of Inland Revenue* (7 T.C., 310). Before quoting the extract, however, I must refer to one or two decisions.

Delage v. *Nugget Polish Company* (1905). This is not a tax case, but an action between the two parties to an agreement. The consideration for the sale to the Nugget Polish Company of the exclusive right to manufacture and sell articles prepared under a secret process took the form of 8 per cent. on the gross proceeds of sales. The payer claimed to be entitled to deduct income tax from all payments on account of the percentages, and the Court decided in his favour. Doubts have been cast on the value of the decision by certain eminent lawyers, not the least of whom was the late Danckwerts, K.C., and I have it on the best authority that his own copy of the report is now a valued possession of an eminent Counsel, and that Danckwerts' adverse opinion is scrawled across the pages in scarlet ink, which is still less vivid than the words themselves.

An interesting contrast is provided by the case of *Poole Corporation* v. *Bournemouth Corporation* (1910). Here one corporation raised a loan to purchase a tramway undertaking, the loan being repayable on ordinary terms over 30 years with interest. In its turn it leased the tramways to the other corporation, stipulating that the lessees should pay rent by half-yearly instalments to such an amount as would enable the lessors to meet their obligation under the loan contract for the same 30 years.

The lessees claimed to deduct income tax from the rent, and it was held they were entitled to do so, and the counter-claim by the lessors that the rent should be such a sum as after deduction of income tax should leave sufficient for the service of the loan, failed.

Now for the *Jones* case. Jones was an inventor, and his patents were sold to a company for a fixed consideration of £750, payable as to £300 by instalments of £100 each at fixed dates, and the balance of £450 by a royalty. As additional consideration a further royalty of 10 per cent. was to be paid on the invoice price of all machines constructed under the inventions. It was agreed that in so far as the royalties were paid to make up the fixed amount of £750 they were not income in the hands of Jones, but that all the additional royalties must be included in his statutory income for super tax purposes. The relevant facts of the judgment are :—

"Rowlatt (J.) : In my judgment, this appeal fails. It has been urged by Mr. Latter that the annuities, or rather the annual payments now in question, being 10 per cent. on the cost of the machines manufactured for ten years, is part of the consideration which is paid for the transfer from the appellant of his property. So it is ; but as I said during the argument, I do not think there is any law of nature, or any invariable principle, that because you say a certain payment is consideration for the transfer of property, therefore it must be looked upon as the price in the character of principal. It seems to me that you must look at every case, and see what the sum is. A man may sell his property for a sum which is to be paid in instalments, and when you see that that is the case, that is not income or any part of it—that was the case of *Foley* v. *Fletcher* (1). A man may sell his property for what is an annuity—that is to say, he causes the principal to disappear and an annuity to take its place. If you can see that that is what it is, then the Income Tax Act taxes it. Or a man may sell his property for what looks like an annuity, but you can see quite well from the transaction that it is not really a transmutation of a principal sum into an annuity, but that it is really a principal sum the payment of which is being spread over a time, and is being paid, with interest, and it is all being calculated in a way familiar to accountants and actuaries, although taking the form only of an annuity. That was *Scoble's* case (1), when you break up the sum and decide what it really was. On the other hand, a man may sell his property nakedly for a share of the profits of a business, and if he does that I think the share of the profits of the business would be undoubtedly the price paid for his property, but still that would be the share of the profits of the business and would bear the character of income in his hands, because that is the nature of it. It was a case like that which came before Mr. Justice Walton in *Chadwick* v. *Pearl Life Insurance Company* (2). It was not the profits of a business, but a man was clearly bargaining to have an income secured to him, and not a capital sum at all, namely, the income which corresponded with the rent which he had before.

"I therefore think that what one has to do is to look and see what the sum payable really is. I think that Mr. Latter is right in this sense, that the ascertaining of an antecedent debt is not the only thing that governs it. It does not govern it by magic, but it is a very valuable guide in a great many cases, undoubtedly. Here, when we look at it, I do not think there is any difficulty in seeing what was intended. The property was sold for a certain sum, and in addition the vendor took an annual sum which was dependent, in effect, on the volume of business done ; that is to say, he took something which rose or fell with the chances of the business. I think, when a man does that, he does take an income—that is what it is. It is in the nature of income, and on that ground I decide this case."

You will realise that no dividing line can be drawn between payment by instalments and an annuity. Take an entirely simple sale transaction and consider some of the means of fixing the consideration. Brown sells his house to Smith and it is agreed that the cash value is, say, £8,000. Brown may take cash at once or may suggest £1,000 down and further payments of £1,000 per annum, with interest at, say, 5 per cent. on the unpaid balance from time to time, and in neither case would there be any doubt as to the real position. Alternatively, the purchaser might agree that the price should be £10,000, payable £1,000 a year, without interest, and then it would be clear that at least one of the reasons for the increase in price would be unspecified element of interest on the outstanding balance. Now one might begin to wonder whether the decision in *Perrin* v. *Dickson* (14 T.C., 608) would have to be invoked. There the appellant took out what is known as an educational endowment assurance, whereunder in consideration of the payment of an annual premium of £90 from 1912 to 1917 the assurance society contracted to pay what was called an annuity of £100 for seven years beginning in 1920 ; provided that the son mentioned in the policy survived. It was admitted that the total sum payable by the society to the appellant was calculated so as to return to him the premiums paid, plus compound interest. He was held to be liable to income tax on so much of the payments as represented interest. At the least it therefore seems that Mr. Brown should be careful to ensure that in agreeing to take ten payments of £1,000 each over ten years, nothing should be said or recorded to establish that interest had been taken into account in fixing the £10,000 payable over the term, instead of the cash price of £8,000. Yet again, Mr. Brown, being of mature years, might agree to take £1,200 a year for the remainder of his life, it being assumed that his expectation of survival would not be so long as to make this an unreasonable proposition from the business point of view for Smith, although it would be not unfair for the latter to seek to set some term to the payments. Here, I think, there would be a clear case of an annuity—that is, the sale of a capital asset for a consideration in the nature of income—and even although Brown did survive for an unduly lengthy period, as is the obstinate habit of annuitants, at least Smith could console himself with the reflection that the Crown, with the high rates of income and sur tax were making a handsome contribution to a burden that would otherwise become exceedingly irksome. In this connection I would make a point for the general guidance of members of our profession who may be contemplating buying or selling a practice. To the buyers I would say endeavour to ensure that the consideration shall be of the nature of income, and to the seller resist all such endeavours to the utmost of your powers.

There is much more that could be said on the subject matter of Rule XIX, but there must be a limit to your patience, and I am now going to pass to Rule XXI, leaving out the intermediate Rule XX for later consideration.

Rule XXI.—The first point to be noticed about this Rule is that it refers to "interest of money" without the qualifying word yearly that is found in Rule XIX. The second point is that the words "charged with tax under Schedule D" are introduced.

In the case of *Lord Advocate* v. *Corporation of Edinburgh* (4 T.C., 627) it was laid down that "interest of money" applies to any interest whether yearly or not, and in *Hill* v. *Gregory* (6 T.C., 39) that the Rule did not apply to a rent payable under a mining lease of property in this country, as such a rent was not a subject matter of charge within the scope of Schedule D.

The provision originally appeared in the Customs and Inland Revenue Act of 1888, and since that time many cases have been taken in the Courts to define its scope and effect. It was laid down by the House of Lords in 1909 in the case of *Edinburgh Life Assurance* v. *Lord Advocate* (5 T.C., 472) that the section was merely a machinery section, neither extending previously existing charges nor imposing new ones.

The practice, however, was somewhat confusing until quite recently. If a company were assessed in the ordinary way on the average under Case I of Schedule D for any particular year of assessment, but made a loss in that year, then upon payment of any debenture or loan interest in such year, the company were not required to hand over to the Crown the tax deductible from such interest, this being deemed to be payable out of the profits and gains brought into charge under the assessment, which was not allowed to be reduced by claims under sect. 34 or otherwise below the total gross interest payable.

On the other hand, if there were no normal assessment under Case I but in the year the company made a profit sufficient to cover any interest payable, again the interest was regarded as payable out of profits and gains brought or to be brought into charge and the company was allowed to retain the tax deducted.

One other case must be referred to before turning to the position as now defined. That is the *Lang Propeller* case, decided in 1926, at 11 T.C., 46, in which the Crown claimed that in the winding up of a company which, having paid interest and deducted tax therefrom, had neither been assessed and paid tax sufficient to cover the tax so deducted nor accounted to the Crown for the tax retained, there was a preferential claim in the liquidation. The Court repudiated the claim, holding that the tax deductible under Rule XXI could not be regarded as "assessed" since none of the procedure to procure an assessment was necessary nor had it in fact been followed; furthermore, that the moneys in the Company's hands were not impressed with a fiduciary capacity so as to be capable of being followed and recovered as such. In self-defence the Crown caused a provision to be introduced into the next year's Finance Act (1927) whereunder the formality of assessment is to be applied in all cases falling under Rule XXI.

For a proper understanding of the present position it is necessary to refer at some length to the cases of the *Attorney-General* v. *Metropolitan Water Board* and *Luipaards Vlei Estate and Gold Mining Company, Limited*, v. *Commissioners of Inland Revenue*. The former is reported at 13 Tax Cases, 294, but the latter is not yet embodied in the reports of Tax Cases, it being decided by the Court of Appeal only last year.

The decisions administered a very severe shock to accepted practice, and the annual character of the income tax was very strongly stressed.

The Metropolitan Water Board claimed that in the year 1922-23, for which on past results there was no direct assessment, they should not be required to pay over to the Crown tax deducted from interest paid, on the grounds that the actual working results for 1922-23 showed a surplus in excess of the total interest payable. This contention, as you will appreciate, was in accord with previous practice as already outlined, but unfortunately for the Water Board the amount of duty at stake was over £400,000 and was well worth a fight. Their claim was rejected on the grounds that income tax is an annual tax, that when considering the question of liability for the year 1922-23 it could not be said that in relation to that particular year the current profits had been "brought into charge," and that the contingency that such profits might become chargeable at some future time did not satisfy the requirements of Rule XXI.

Mr. Justice Rowlatt, whose decision was confirmed by the Court of Appeal, dealt at some length on the possibility of there being some balance of profits brought forward from previous years. His words were:—

> "Now has this interest in the year ending April, 1923, been paid out of profits and gains brought into charge? Not necessarily profits and gains brought into charge in that year, as Mr. Latter very properly pointed out, because if they had profits and gains brought into charge in previous years which they carried forward and used to pay this interest the thing would be none the less profits and gains brought into charge; if they had had a carry-forward, as I say, they would still have been profits and gains brought into charge. But have they been paid out of profits and gains brought into charge in this year or in any preceding year up to date? Now they cannot have been paid out of profits and gains brought into charge if there were not sufficient profits and gains brought into charge to pay them. That is quite clear. Have there been? I have not heard of any amount being carried forward from previous years, but all the profits and gains brought into charge which I have heard of are profits and gains which were brought into charge at the figure of zero. They are brought into charge, but that is the amount of them—nothing. That is all I have heard of so far as the charge is concerned, and you cannot possibly pay £1,600,000 out of nothing. That seems very simple."

Emboldened by these *obiter dicta* the Luipaards Vlei Company, having paid debenture interest in the years 1923-24 to 1926-27, for none of which was there any assessment on profits, claimed to be entitled to retain the tax deducted on the grounds that there was an ample balance of statutory profits in their hands from previous years, which had been brought into charge in the past. I will not trouble you with the difficulty which arose from the fact that the balance of profit and loss account had in fact been applied in writing down the assets of the company in the course of a reduction of capital, because this point was wholly ignored in the decision.

The principle of the annual nature of the income tax had evidently grown in judicial favour, and considerable time was devoted to the elaboration of the theme, particularly in the Court of Appeal. In the King's Bench, however, Mr. Justice Rowlatt, referring to his remarks in the *Water Board* case, said:—

> "In giving my decision, lightly agreeing with something which fell from Mr. Latter, I did say that if you could carry forward profits from a preceding year, that would do. I had an idea that that was done and there has been a good deal of custom in that direction, and I let that fall in the case. But that was only *obiter* in the strictest sense of the word, and I think I was wrong in making that reservation, and I do not hold myself bound by it."

Lord Justice Lawrence, in the Court of Appeal, used

the following phrase when referring to the Water Board decision :—

> " I then stated, and desire now to repeat, that the expression ' profits or gains brought into charge to tax ' in Rule XIX means profits or gains brought into charge to tax in the year of assessment, and that it follows that under Rules XIX and XXI no taxpayer can retain against the Crown any more income tax deducted by him in any year of assessment than he has himself paid or become liable to pay to the Crown *for that year*."

Accountants may heave a sigh of relief at the simple debit and credit statement that this phrase will conjure up in their minds, but simplicity, as usual, brings many hardships in its train, and the application of the method outlined by the learned Judge must inevitably tend to ensure that in trades subject to wide fluctuations in earnings the disparities between total profits earned and total liability to assessment over any given period of years will tend to increase.

Rule XX.—It is in relation to the deduction of tax from dividends that one's imagination finds most scope in considering the application of the annual tax principle as defined in the *Luipaards Vlei* case. The Rule itself reads :—

> " The profits or gains to be charged on any body of persons shall be computed in accordance with the provisions of this Act on the full amount of the same before any *dividend thereof* is made in respect of any share, right or title thereto, and the body of persons paying such dividend shall be entitled to deduct the tax appropriate thereto."

and we find in sect. 207 of the Act that " Body of Persons " means any body, politic, corporate or collegiate, and any company, fraternity, fellowship and society of persons, whether corporate or not corporate, but I must remind you that in 1842 the limited liability company did not exist in the form in which we know it to-day, and the wording of Rule XX when originally drawn could not have been designed to cover the declaration of dividends as now understood.

What, then, did the Rule in its original form achieve ? Sect. 207 groups companies with fraternity fellowships and societies which are merely collections of persons whose profits *belong* to their members, and it was only reasonable as the bodies had to pay tax on the full profits that they should be given the right to divide the tax among the members in the same ratio as the profits themselves were divisible. Here another significant difference in wording between Rule XX and Rules XIX and XXI should be noted. Both the latter define the *rate* at which tax is to be deducted, but Rule XX merely says " the tax appropriate thereto." Bearing in mind that such companies as existed in 1842 were but little different from large firms in their constitution, I suggest that the purpose of the Rule was to ensure that the tax should be applied at the source to the profits of all bodies of persons and that precise tax should then be divided appropriately between the persons to whom such profits belonged.

Now let us apply our theory to the position as we find it to-day with the annual nature of the tax so recently emphasised and the limited liability company one of the most important factors in modern commerce.

Perhaps we can get some guidance from the Surtax provisions. Sect. 5 (3) (*c*) of the 1918 Act says that income chargeable with tax by way of deduction shall be income for the year in which it is receivable and that seems only reasonable remembering that the title of a shareholder only attaches to a dividend when it is declared.

Then sect. 39 of the Finance Act, 1927, provides that for " the tax appropriate thereto " shall be substituted tax at the standard rate for the year in which the amount payable becomes due.

I expect you will be wondering where all this is leading, but before attempting to summarise in my own words I will invoke the assistance of yet another case—that is, *Gimson* v. *Commissioners of Inland Revenue*, decided in May, 1930. Very briefly, a company declared a dividend out of a specific fund made up in part of capital profits not liable to tax and for the rest of interest items, &c., which, owing to the vagaries of Cases III and V of Schedule D, had never been brought into any computation of liability to assessment. The Crown were content to claim super tax on part only of this dividend, but it is not material to go into this point in view of the decision, of which the relevant portion is :—

> " Now I am bound to say I have always regarded it as fundamental that, just as in the case of an individual whose income comes to him straight and who gets back the tax which he has suffered, and no other, and pays super tax in respect of a fund which has suffered tax, and no other, so if this gentleman had received this money direct from the company by holding this source of income himself and had been liable to income tax in nil because of the regulations affecting measurement, his income would not be subject matter on which he could get back tax which was small or pay super tax in case it was big. So in the case of a company, although the Attorney-General very properly referred to what I said in *Blott's* case, which is a material case, although the case of a company is different, in essence it is the same ; *he can only get back tax which the money he received has suffered, and he can only be liable to super tax in respect of a dividend which is taxable.*"

The rest of what I am going to say is one large question. I know that questions are usually the privilege of the audience on these occasions, and I confess quite unashamedly that I hope, in putting a sufficiently weighty one to you, I may perchance escape some of the conundrums with which you would possibly assail me. I will put the problem in the shape of a concrete example :—

X and Y are the proprietors of two businesses, one of which they carry on in one place as a firm and the other somewhere else as a limited company. In the calendar years 1927 and 1928 it happened that both enterprises earned virtually identical profits of £10,000 and £20,000 respectively. The income tax assessment for 1928-29 would therefore be £10,000 in each case. In March, 1929, they know the results of both businesses for 1928, and in the books of X, Y & Co. £10,000 is credited to the account of each partner, while X, Y & Co., Limited, solemnly hold a general meeting and declare a dividend of £20,000, and again £10,000 gross is credited to each of the personal accounts of X and Y in the books of the company.

Now we know quite well how to apportion the tax paid by the firm between X and Y. Ignoring personal allowances, each would be charged with one-half of the tax charged on the firm for 1928-29 (ignoring again the difference between the calendar and the fiscal years). That is, as partners, X and Y would be charged with tax on £5,000 each.

When we come to consider them as shareholders, however, we are immediately confronted with the problem. The company has paid tax for 1928-29 on £10,000—that

is, £2,000—but if the universal practice is followed tax would be deducted from the full £20,000 dividend at the standard rate—that is, £4,000. Making the transfer to income tax account, this would throw up a surplus on that account of £2,000. Is that right in view of what Mr. Justice Rowlatt said in the *Gimson* case? Can the mere existence of a limited company and its processes of distributing its profits to its members operate to multiply the statutory income of the company in the hands of its members and to thrust on them a liability to sur tax (which is merely a higher rate of income tax) on a much greater sum than that to which the standard rate of tax was originally applied?

Of course the converse might happen just as easily, and also, instead of an increased liability to sur tax, you might have, in the case of shareholders with small incomes, claims to repayment totalling more than the tax which the company had originally paid.

Remember, I am not expressing an opinion. I am merely propounding a problem, and to disarm criticism I will admit in advance all the practical difficulties which would make the premiss unworkable with the innumerable public companies which are the main fount of dividends, but impracticability is *not* the test of legal validity.

So I will end this paper on a note of interrogation, and I seek guidance from all of you who may be concerned professionally with the declaration of dividends by limited companies and the deduction of tax therefrom. Give me the benefit of your rede and counsel; guide me in the dark places wherein I am groping until that blessed day when the searchlight of judicial opinion may be thrown on the pitfalls besetting the path. May it not be far distant!

The Lecturer desires to point out that since the paper was read the problem outlined has been before the Courts in the case of *Hamilton* v. *Commissioners of Inland Revenue*. The sequel of the Resolution of the House of Commons in Committee of Ways and Means on Budget Day and the debates on the retrospective effect of the corresponding clause in the Finance Bill will be remembered from the widespread interest these aroused in the Press and elsewhere.

Obituary.

JOHN HATCH CLAYTON.

We regret to announce that Mr. J. H. Clayton, A.S.A.A., died at Brooklyn, U.S.A. Mr. Clayton was trained in the office of Messrs. John G. Benson & Sons, of Newcastle-on-Tyne. He passed the Society's Final examination in May, 1921, when he was in the service of Messrs. Lovelock and Lewes, of Calcutta, and was elected to membership in the same year. In 1928 he took up an appointment with Messrs. Peat, Marwick, Mitchell & Co., in their New York office, which he continued to hold until the date of his death. He served in India and Mesopotamia during the War, and held the rank of Captain when he retired.

Incorporated Accountants' Golfing Society.

The committee has decided not to hold an Autumn Meeting this year. This decision was arrived at in view of the increasing difficulties which Incorporated Accountants find at the present time in arranging to play golf in mid-week. It is hoped that it may be possible to arrange the usual Spring Meeting in 1932.

Reviews.

The Law of Negotiable Instruments. *By F. Raleigh Batt, LL.M., Barrister-at-Law. London: Longmans, Green & Co., Limited, 39, Paternoster Row, E.C.4.* (156 *pp. Price 5s. net.*)

This is one of a series of short works on the more important branches of Commercial Law, the object of which is to expound and not merely state the law on the particular topics with which they deal. As a Professor of Commercial Law in the University of Liverpool, Mr. Batt is well qualified to give an exposition of the law on this subject, and he has done so in a very readable form. References to decided cases are given as footnotes, whilst an alphabetical index of the cases is provided at the beginning of the book.

Slater's Mercantile Law. *7th Edition. By R. W. Holland, M.A., and R. A. Code Holland, B.A., Barristers-at-Law. London: Sir Isaac Pitman & Sons, Limited, Parker Street, Kingsway, W.C.2.* (530 *pp. Price 7s. 6d. net.*)

The whole field of mercantile law is covered by this treatise, including the Law of Contract from formation to discharge, the Law of Agency, Partnership, Negotiable Instruments, Mortgages, Bills of Sale and other securities, Bankruptcy and Arbitration. The Appendix contains the provisions of the Factors Act, 1889, and the Sale of Goods Act, 1893.

Public Issue Allotment Work. *By Oswald M. Brown, F.C.A. London: Gee & Co. (Publishers), Limited, 8, Kirby Street, E.C.1, and 41, Moorgate, E.C.2.* (20 *pp. Price 1s. 6d. net.*)

The object of this little pamphlet is to give some new ideas on the work of Allotment relating to the public issue of shares, and anyone who is concerned with the management of an Allotment will be well repaid for a perusal of its pages.

Chalmers' Sale of Goods. *11th Edition. By Ralph Sutton, M.A., and N. P. Shannon, Barristers-at-Law. London: Butterworth & Co. (Publishers), Limited, Bell Yard, Temple Bar, E.C.4.* (260 *pp. Price 15s. net.*)

In this edition reference to many of the older cases decided before the Sale of Goods Act, 1893, came into force have been omitted as being of minor importance, while numerous cases decided since the publication of the last edition have been included. In other respects the form of the work remains the same. The subject matter is treated by setting forth the sections of the Sale of Goods Act in sequence, with the author's notes and observations in smaller type appended to each, and references to legal decisions relating to the particular section. Extracts from Statutes bearing upon the subject are provided in an Appendix, while a second Appendix contains a number of explanatory notes.

Income Tax Principles. *By Raymond W. Needham, K.C. London: Gee & Co. (Publishers), Limited, 8, Kirby Street, E.C.1.* (344 *pp. Price 21s. net.*)

The principles referred to in the title of this book are the doctrine of the Crown's option in relation to the Schedules and Cases of the Income Tax Act, 1918. In other words, where certain profits, chargeable under Schedule D, fall within more than one case of that schedule the Crown claims the right to elect under which case those profits should be assessed. The Crown further claimed an option to expand the doctrine so as to make it cover the schedules of the Income Tax Act as well as the cases of Schedule D, but this received a decided check by the decision in the case of *Salisbury House, Limited.* v. *Fry.* The discussion of the subject by the author covers the first 70 pages of the book and the remainder is occupied by a very lengthy appendix giving extracts from numerous decided cases. The subject is a very technical one, but

to those who like to study the niceties of Income Tax Law, Mr. Needham's book will be of interest.

The Substance of Economics. *7th Edition. By H. A. Silverman, B.A. London: Sir Isaac Pitman & Sons, Limited, Parker Street, Kingsway, W.C.2.* (356 *pp. Price* 6*s. net.*)

So many books on Economics have been written that it is somewhat difficult to place on the market anything that is really new. Mr. Silverman's work is divided into five parts and deals with the production and consumption of wealth, the theory of value, distribution of the social product, the mechanism of exchange, and public finance and policy. In discussing exchange and international trade the arguments for and against protection of home industries receive attention.

Land Value Tax. *By T. G. Sophian, Barrister-at-Law. London: Sweet & Maxwell, Limited,* 2 *and* 3, *Chancery Lane, W.C.2.* (36 *pp. Price* 4*s. net.*)

In an introduction the author deals briefly with the Land Value tax under the headings of Valuation dates and periods, What is a land unit? Exemptions and Reliefs, Persons Chargeable, Valuation and Assessment and Appeals. The sections of the Act relating to the subject are then given in sequence with numerous explanatory foot notes. The book will be found a very useful guide to those who are concerned with these valuations and the steps necessary to enter appeals.

Hotel Organisation, Management and Accountancy. *2nd Edition. By G. De Boni and F. F. Sharles, F.S.A.A. London: Sir Isaac Pitman & Sons, Limited, Parker Street, Kingsway, W.C.2.* (196 *pp. Price* 10*s.* 6*d. net.*)

As its title indicates, this is much more than a book on hotel accounts. It deals with the whole subject of management and control including the functions of the reception office and the cashier's office, the control of the stores, cellar and linen, the duties of the housekeeper, and the planning and organisation of the kitchen. In illustration of the text numerous forms and rulings are supplied, and in one or two cases even plans and graphs. The book concludes with an explanation of the Book-keeping accompanied by specimen accounts, but it will probably be more valued for the information as to management and organisation than for the portion relating to finance.

Professional Appointments.

Mr. Herbert Harrison, Incorporated Accountant, City Treasurer's Department, Salford, has been appointed to the position of Accountant to the Chingford Urban District Council.

Mr. E. J. D. Lloyd, Incorporated Accountant, has been appointed Borough Treasurer of Wednesbury in succession to Mr. Edward Wilson, who recently retired from office.

Mr. T. Tattersall, Incorporated Accountant, has retired from the service of the Chelsea Corporation, where he has occupied the position of Borough Treasurer for many years.

District Societies of Incorporated Accountants.

LIVERPOOL.

On September 16th 70 members of the Incorporated Accountants' District Society of Liverpool visited the offices and works of the Liverpool Gas Company, the largest provincial gas company in the United Kingdom. At the head offices in Duke Street the accounting methods in use were demonstrated by Mr. T. J. Burns and other officials of the company. The members were then taken by motor coach to the Garston Gas Works and were received by Mr. Ernest Astbury (assistant engineer), Mr. William Fletcher (resident engineer at Garston), and members of the engineering staff. The party made a comprehensive tour of the works under the guidance of the engineers, and were afterwards entertained to tea in the Club House. A short address was given by Mr. Astbury on the methods and prospects of the gas industry. Mr. Alexander Hannah, President of the District Society, expressed the thanks of the members to the Liverpool Gas Company and its officials for their courtesy and kindness in entertaining the Society.

Syllabus of Lectures and Meetings, 1931-32.

1931.		
Sept.	16th.	Visit to the Offices and Works of the Liverpool Gas Company.
Sept.	30th.	Mock Company Meeting, arranged by Mr. Charles M. Dolby, F.S.A.A.
Oct.	14th.	"Industrial Aspects of Economics," by Mr. Douglas Haigh, F.C.I.S., General Secretary, National Industrial Alliance.
Oct.	29th.	"Partnership Accounts," by Mr. Patrick Taggart, F.S.A.A., Lecturer in Accounting, the University of Liverpool.
Nov.	12th.	"Liquidators, Trustees and Receivers," by Mr. E. Westby-Nunn, B.A., LL.B., Barrister-at-Law; at Southport.
Nov.	19th.	Joint Debate with the Liverpool Chartered Accountants' Students' Association.
Dec.	2nd.	"Accounting by Machinery" (with demonstrations), by Mr. G. Heath Robinson.
Dec.	16th.	Ten Minute Papers by Members.
1932.		
Jan.	7th.	"The Legal Liability of Accountants," by Mr. Bertram B. Benas, B.A., LL.B., Barrister-at-Law.
Jan.	20th.	"The Accounts Examination Papers of the Society," by Mr. H. A. R. J. Wilson, F.C.A., F.S.A.A.
Feb.	4th.	"Income Tax," by Mr. Lawrence Bailey, A.S.A.A.; at Chester.
Feb.	18th.	"The Law of Evidence," by Professor F. Raleigh Batt, LL.M., Barrister-at-Law, Dean of the Faculty of Law, the University of Liverpool.
Mar.	3rd.	Joint Debate with the Liverpool Law Students' Association.
Mar.	17th.	"Company Amalgamations and Reconstructions," by Mr. Harold Brown, M.A., LL.B., Barrister-at-Law.
Mar.	29th.	"Pre-Examination Hints," by Mr. E. Miles Taylor, F.C.A., F.S.A.A.
April	6th.	Students' Impromptu Speeches, for the President's Prize.

Meetings will be held at 6.15 p.m. All meetings are held in Liverpool unless otherwise stated.

NORTH STAFFORDSHIRE.

Syllabus of Lectures, 1931-32.

1931.

Sept. 17th. "Signposts to Costing," by Mr. J. Stewart Seggie, F.S.A.A., President, Scottish Branch.

Oct. 14th. "Insurance Accounts," by Mr. A. R. Davidson, Secretary of the Faculty of Actuaries.

Nov. 13th. "Hidden Losses in Pottery Manufacture," by Mr. Alex. Scott, M.A., D.Sc.

Dec. 11th. "Some Recent Decisions on Income Tax Law," by Mr. J. J. Nelson, Solicitor, Kidsgrove.

1932.

Jan. 22nd. "Municipal Accounts," by Mr. T. Thompson, F.S.A.A., City Treasurer of Stoke-on-Trent.

Feb. 9th. "The Banker's Place in Industry," by Mr. John Brunton, Local Director of Barclays Bank Limited, Birmingham.

March * "Income Tax," by Mr. C. K. Roberts, H.M. Inspector of Taxes.

April 11th. "Practical Banking," by Mr. J. N. Bell, Fellow of Institute of Bankers.

* Definite date still to be fixed.

NORTH-WEST LANCASHIRE.

Syllabus of Lectures, 1931-32.

1931.

Sept. 11th. "Income Tax, Claims and Reliefs," by Mr. W. S. Carrington, A.C.A., London.

Oct. 27th. "Executorship Accounts," by Mr. C. Townsend, A.S.A.A., Bradford.

Nov. 18th. "The Law of Contracts," by Mr. John Ambler, Solicitor, Preston.

Dec. 8th. "Receivers," by Mr. P. I. Bell, B.A., B.C.L., Barrister-at-Law, Manchester.

1932.

Jan. 19th. "Typical Problems in Trust Accounts," by Mr. H. A. R. J. Wilson, F.C.A., F.S.A.A., London.

Feb. 17th. "Income Tax—Modern Legislation," by Mr. J. H. Mitchell, H.M. Inspector of Taxes.

Mar. 15th. "Law and Equity," by Mr. C. A. Sales, LL.B., F.S.A.A., London.

NOTTINGHAM, DERBY AND LINCOLN.

Syllabus of Lectures, 1931-32.

1931.

Oct. 8th. "Executors and Equitable Apportionments," by Mr. E. Westby-Nunn, B.A., LL.B., Barrister-at-Law.

Oct. 22nd. "Economics," by Mr. A. C. Radford, B.Sc., University College, Nottingham.

Nov. 27th. "Rationalisation of Industry," by Mr. A. Lester Boddington, F.S.S.

Dec. 8th. "Law and Accounts relating to Holding Companies," by Mr. C. E. Perry, A.S.A.A., A.C.A.

1932.

Jan. 6th. "Receivers and Managers," by Mr. Stanley Blythen, F.S.A.A., F.C.A.

Jan. 18th. "Income Tax Practice and Treatment of Losses," by Mr. C. F. Carlisle, A.S.A.A.

Feb. 3rd. "Amalgamations and Reconstructions," by Mr. H. A. R. J. Wilson, F.S.A.A., F.C.A.

Mar. 2nd. "Bankruptcy," by Mr. C. Allison Sales, LL.B., F.S.A.A.

Mar. 17th. "Conversion of a Business into a Limited Company," by Mr. E. Harry Palmer, F.S.A.A., F.C.A.

Meetings will be held at 6.30 p.m. at the Reform Club, Victoria Street, Nottingham.

YORKSHIRE.

Annual Report.

The Committee have pleasure in submitting to the members the thirty-seventh report for the year ending September 1st, 1931.

MEMBERSHIP.

Fellows	62
Associates	204
Students	244
	510

Sixty-four new members have joined during the year. Twenty members' names have been removed from the register owing to death, removal, or retirement from practice.

OBITUARY.

We regret to report that the Society has lost during the past year several prominent members—Sir Charles H. Wilson, F.S.A.A., Past President for many years, and one of the founders; Mr. Jas. B. Lapish, F.S.A.A., Vice-President; Mr. S. Kendall, late Deputy City Treasurer, Leeds.

LECTURES AND DISCUSSIONS.

The following lectures and meetings were well attended by student and senior members, the average attendance being 46, compared with 44 for the previous year. Interesting discussions took place on points of practical interest to both senior and student members:—

Lecture by Mr. John H. Bromley, Solicitor, Leeds, on "Company Law."

Lecture by Mr. Wilfred H. Grainger, F.S.A.A., London, on "Executorship Law and Accounts."

Lecture by Mr. George R. Lawson, F.S.A.A., B.Com., Bradford, on "The Preparation of a Statement of Affairs in a Creditors' Voluntary Winding-up."

Lecture by Mr. Victor Walton, F.C.A., Leeds, on "Notes on Income Tax and Surtax, including the 1930 Finance Act."

Lecture by Mr. Walter Pullan, Solicitor, Leeds, on "Bankruptcy."

Lecture by Mr. H. Julius Lunt, F.C.A., F.C.W.A., A.C.I.S., Manchester, on "Costing, with particular reference to the Treatment of Materials."

Lecture by Mr. Stanley A. Spofforth, A.S.A.A., Huddersfield, on "Income Tax (Back Duty Cases)."

Joint Meeting with the Chartered Institute of Secretaries (West Yorkshire Branch): "Sections of the 1929 Companies Act."

Lecture by Mr. O. K. Metcalfe, M.A.(Hons.), LL.M.(Hons.), Barrister-at-Law, on "The Companies Act, 1929."

LIBRARY.

The Library continues to be well used by members, the number of books issued during the year being 387. A large selection of books has been purchased, useful to members in practice, and to students preparing for examinations. A suggestion book is kept at the Library in Cookridge Street for members to propose books for purchase. Thanks are due to several donors of books.

ACCOUNTANCY CLASSES FOR STUDENT MEMBERS.

For the benefit of accountancy students, special arrangements have been in operation for several years at the Leeds College of Commerce, 77, Woodhouse Lane, Leeds (under the Leeds Education Committee), and

student members are invited to apply for full syllabus of the evening classes for the Intermediate or Final examination course.

Entrance and other forms required by students can be obtained on application to the Secretary, 29, Cookridge Street, Leeds.

APPOINTMENTS REGISTER.

Members of the Society have found the register of considerable value, and students and Associate members requiring appointments should make application to the Secretary. Members in practice having vacancies on their staffs, or requiring articled clerks, will greatly assist by communicating with the Secretary.

EXAMINATIONS.

Our congratulations are offered to the successful candidates at the examinations of the Society, November, 1930, and May 1931. Twenty students passed the Final examination, and 26 the Intermediate.

SOCIAL FUNCTIONS.

The annual meeting and dinner was held on September 19th, 1930, and was well attended.

The official dinner was held on December 5th, 1930, when 110 members and guests were present. The President, Mr. Arthur France, F.S.A.A., was in the chair.

The annual dance was held on January 29th, 1931.

OFFICIAL NEW RULES FOR DISTRICT SOCIETIES.

Under the new District Society scheme the Parent Society, after discussion with the Conference of District Society representatives, has drafted a set of rules applicable to all District Societies. The Council of the Parent Society has already approved the rules, and the Yorkshire District Society will consider their adoption at the forthcoming annual meeting.

Under the new rules all District Societies will in future have a financial year ending March 31st. The Committee has therefore decided that the next financial year of this Society will terminate on March 31st, 1932.

Correspondence.

DEPRECIATION OF PLANT AND MACHINERY.

To the Editors *Incorporated Accountants' Journal.*

SIRS,—May we ask the courtesy of your columns to reply to certain Editorial comments appearing in your September issue, relating to the valuation of fixed assets?

You therein state: "The fact is that an independent valuation of assets such as plant and machinery is liable to be very misleading, and, taking all things into consideration, a much fairer and more equitable result is arrived at by writing off adequate depreciation year by year on the basis of replacement value."

Far from an independent valuation being "misleading," it is the ONLY method of ascertaining current fair values.

The term "adequate depreciation," whilst giving one satisfactory results "in theory," fails lamentably to do so when put into practice, because many factors, each important in themselves, are not fully taken into account, the cumulative effect of which rendering it impossible to fix any depreciation rate to cover them all.

A few illustrations will, we trust, convince you and your readers of the impracticability of fixing any hard and fast rates for depreciation. The most important question in dealing with items of plant and machinery is that of "obsolescence," for whilst the wear and tear of machines may proceed more or less steadily, obsolescence usually proceeds by jumps, is irregular in its incidence, and occurs whether the machines are in operation or remaining idle.

"Obsolescence" does not necessarily imply an old machine, for a quite modern tool may become obsolete by reason of the introduction of another machine that will improve former methods, increase output and reduce manufacturing costs. Their installation at once and automatically reduces the value of the machines formerly used for the manufacture of the same product.

Again, "Maintenance" is another important factor. One may have (we have experienced this in our professional activities on scores of occasions) two machines bought and installed at the same time, costing the same amount, and doing the same class of work. The operator of one has taken a pride in his machine and keeps it up to concert pitch. The other has been badly neglected. We ask, in all sincerity, "can any rate of depreciation be evolved to cover this human frailty which is ever constant?"

The examples quoted apply, generally speaking, to every industrial works, but there are, in addition, many reasons not so general, which more than justify the employment of professional experts if correct appraisement is desired.

The following will indicate how utterly unreliable the term "Cost" may be.

Clients of ours acquired a Lancashire boiler, second-hand, at a sale, for which they paid £40. It was installed at their works and put into commission, and included in their plant register at £80, representing its cost, plus installation. This boiler, with a present working pressure of 150 lbs., was valued by us at £300 and could not be replaced to-day for less.

Other clients of ours recently erected a garage in which to house their commercial vehicles. The "Cost" they gave us was £90. Upon investigation we found their own workmen had erected the building, but their time had not been charged to the job, the bricks used were taken from a demolished building and not charged for, and we finally ascertained that the £90 was the sum paid to a local builder for the roof principals.

Here then was a building fully worth and valued by us at £850 and appearing in the register at £90!

These are not isolated cases by any means, as we are constantly coming across similar experiences, all of which tend to show how advisable—not to say necessary—it is to employ a reputable firm of valuers to periodically adjust values, and how impossible it is to fix any rate of depreciation on the basis of replacement value.

We are, Sirs,

WHEATLEY KIRK, PRICE & CO.

September, 1931.

[We deal with the above in Professional Notes.—EDS., *I.A.J.*]

PROFESSIONAL ETIQUETTE.

To the Editors *Incorporated Accountants' Journal.*

SIRS,—The opinions of your readers will be appreciated on the following points of professional etiquette:—

(1) Where, in the place of the retiring auditors of a public limited company, it is proposed to appoint another firm of auditors by a shareholder of the company, is it the common practice among the auditors to put themselves in communication with the retiring auditors of the company at a stage when the above proposal is made or at a stage when they are elected by the shareholders, but before they actually confirm their appointment?

(2) A firm of auditors were appointed by the board of a newly-started company, and their name put on the prospectus issued by it to the public. Subsequently, owing to a change in the management before the commencement of business by the company, a new firm of

auditors are appointed in place of the old ones. Is it the professional practice, in the circumstances related above, for the new auditors to communicate with the old auditors before accepting the appointment?

(3) Where a company has a single firm of auditors, and it is proposed by a shareholder of the company to appoint another firm of auditors jointly with the old incumbents, is it the usual professional etiquette to communicate with the old auditors of the company before allowing one's name to be proposed or after election being made, but before accepting the appointment?

(4) Where a firm of auditors are called by a liquidator of a company to investigate into the accounts of a company with a view to determine whether there was committed any misfeasance or fraud by the officers of the company, is it the normal practice among the investigating auditors to give the late auditors of the company an opportunity to explain certain points before setting down their own conclusions in their report to the liquidator?

It is desired to know the best professional practices prevalent in the above circumstances among the members of the Institute or the Society.

Yours, &c.,
"ARCADIA."

Scottish Notes.

(FROM OUR CORRESPONDENT.)

Glasgow Students' Society.

The opening meeting of the winter session will be held on the 28th inst., when the President of the Scottish Branch, Mr. J. Stewart Seggie, will give an address on "Executorship Accounts." As Mr. Seggie is an authority on the subject his address should prove specially interesting to students.

Glasgow Incorporated Accountants' Golf Club.

The final meeting of the season was held on Saturday, 19th ult., when the Dunlop Cup was won by Mr. A. G. M. Phillips, A.S.A.A., Glasgow, with a net score of 154 over two matches.

Savings Banks and Income Tax.

Two important questions in connection with the reclaim of income tax in the Special Investment Departments of Trustee Savings Banks, were raised by the Bute Savings Bank, Rothesay, of which Mr. James Paterson, F.S.A.A., is auditor, and on whose advice, and through whom, the questions were brought before the Inland Revenue.

The questions were (1) as to the competency of raising an assessment on untaxed interest purchased through the National Debt Commissioners; and (2) the competency of applying sect. 30 of the Finance Act, 1926, to changes in the investments of Savings Banks. The contention for the Bute Savings Bank was (1) that the raising of the assessment was incompetent, and (2) that sect. 30 of the Finance Act, 1926, did not apply. Inspectors in several districts had acted on the assumption that such assessments could competently be raised, and that sect. 30 could be applied.

The Inland Revenue has given decisions favourable to the views expressed on behalf of the Bute Savings Bank, and the Trustee Savings Banks Association has issued a circular letter to all Trustee Savings Banks informing them of the decisions which, although given in response to local representations, appear to involve rulings of general interest to all Savings Banks.

The following are extracts from the circular referred to: The Bute Savings Bank was informed that the interest on the Treasury bonds held for its Special Investment Department and purchased through the National Debt Commissioners "is exempt from tax under sect. 39 (3) (*a*) of the Income Tax Act, 1918, and the Board of Inland Revenue agree that it should not be made the subject of assessment to income tax under Case III. of Schedule D." The effect of this ruling appears to be that interest on all Government securities purchased for the Special Investment Department of Trustee Savings Banks through the National Debt Commissioners is exempt from tax as interest arising from investments with the National Debt Commissioners.

The Bute Savings Bank also obtained an agreement that the Savings Bank year to November 20th would be accepted as equivalent to the income tax year to the following April 5th, provided the basis were consistently followed.

Another point raised recently by the Aberdeen Savings Bank was in relation to the method of computing the actual amount of gross income on which tax had been suffered during the year and the Notional Gross Income taxable for the previous year. The Revenue Authorities stated that they were unable, in view of recent decisions, to take into account interest accrued but not received in dealing with repayment claims; they would, however, accept figures based on interest actually received in both cases. In future, therefore, in arriving at the Notional Gross Income taxable for the previous year, interest accrued but not received during the year in question may be excluded.

Notes on Legal Cases.

[The abbreviations at the end of each of the cases refer to the following law reports, where full reports of the case may be found. The Law Reports and other reports are cited with the year and the Division, *e.g.* (1925) 2 K.B. :—

T.L.R., *Times Law Reports*; *The Times*, *The Times* Newspaper; L.J., *Law Journal*; L.J.N., *Law Journal* Newspaper; L.T., *Law Times*; L.T.N., *Law Times* Newspaper; S.J., *Solicitors' Journal*; W.N., *Weekly Notes*; S.C., *Session Cases* (*Scotland*); S.L.T., *Scots Law Times*; I.L.T., *Irish Law Times*; J.P., *Justice of the Peace* (*England*); L.G.R., *Knight's Local Government Reports*; B.&C.R., *Bankruptcy and Company Cases*.

The other abbreviations used in modern reports are H.L., House of Lords; A.C., Appeal Court (House of Lords and Privy Council); C.A., Court of Appeal; Ch., Chancery Division; K.B., King's Bench Division; P., Probate, Divorce and Admiralty Division; C.S., Court of Session (Scotland); J., Mr. Justice (King's Bench or Chancery); L.J., Lord Justice; L.C., Lord Chancellor; M.R., Master of the Rolls; N.I., Northern Ireland; P., President of Probate, Divorce and Admiralty.]

BILLS OF EXCHANGE.

Slingsby v. District Bank Limited.

Alteration of Cheque.

Wright (J.) held that :—

(1) The addition after the name of the payee of "per X" is a material alteration of the mandate, and the bankers having paid the cheque on an improper indorsement are not entitled to debit the customer therewith.

(2) It is no breach of the customer's duty to leave a blank after the payee's name.

(3) That the customer is not liable for the fraud of his agent because the fraud was an act of forgery.

(K.B.; (1931) L.J.N., 122.)

COMPANY LAW.

Walsh v. Bardsley.

Breach of Trust by Directors.

Where two directors of a limited company join in signing a cheque whereby a part of the company's funds

is used for a purpose not authorised by the Articles of Association and one of the directors is subsequently compelled to replace the money so used, he cannot recover contribution from the other if the money has been applied for the sole benefit of the director claiming contribution, even if the other director has assented to its being so used.

(Ch.; (1931) 47 T.L.R., 564.)

In re Antwerp Waterworks Company, Limited.

Dispensing with Inquiry for Creditors on Reduction of Capital.

A company was incorporated in 1880 to work a concession for supplying water to the City of Antwerp. In 1930, owing to the fact that the concession was redeemable in 1931, a new company was formed in Belgium which took over the company's undertaking with the result that the company received a sum in cash and a holding in the Belgian company. The company, having cash in excess of its requirements, desired to present a petition for the reduction of its capital by returning £285,000 out of £300,000 to its shareholders and asked the Court, under sect. 56 (3) of the Companies Act, 1929, to dispense with the inquiry as to creditors. Evidence was given that £200,000 had been set aside for the redemption of the company's debentures, and that the only other liabilities were amounts payable for taxation in Belgium and England, debenture interest, and certain current accounts not due or delivered, amounting to approximately £17,000, and that there were ample funds available on deposit in London to meet the liabilities.

Bennett (J.) directed that the inquiry should be dispensed with on the undertaking of the company to keep on deposit £30,000 to satisfy its liabilities.

(Ch.; (1931) W.N., 186.)

In re Cadzow Coal Company.

Reduction of Capital.

By sect. 56 (2) of the Companies Act, 1929, the Court is to settle a list of creditors entitled to object to a reduction of capital, and where a creditor entered on the list does not consent to the reduction, the Court may dispense with such consent on the company securing payment of his claim, or where the claim is disputed an amount fixed by the Court. By sect. 56 (3), the Court may, if there are special circumstances, direct that the consent of such creditor is not required.

On a petition for confirmation of reduction of capital it appeared that the company had no debentures, that all the creditors with one exception had been paid or had consented to the reduction; that the remaining creditor, the Inland Revenue, whose claim was for £19,690 in respect of unascertained income tax liability, had in accordance with departmental practice declined to sign any consent, but had stated no objection to the reduction; and that the value of the company's liquid assets was ample security for its outstanding liabilities.

The Court of Session held it unnecessary to apply the provisions of sect. 56 (2) and confirmed the reduction of capital.

(C.S.; (1931) S.C., 272.)

MISCELLANEOUS.

Hunt v. Palmer.

Valuable Business Premises.

Clauson (J.) held that a contract for the sale of business premises, described as valuable business premises, but which were available for one trade only, will not be enforced, and a condition in the contract that the purchaser was deemed to have notice of the restriction in the lease was irrelevant.

(Ch.; (1931) L.J.N., 134.)

MONEYLENDERS.

Parkfield Trust v. Dent.

Memorandum of Transaction Requires Stamping.

Swift (J.) held that the onus is on the moneylender to satisfy the Court that a transaction is not harsh or unconscionable. The note or memorandum of the transaction requires to be stamped. In determining the question of excessive interest, the Court may take into consideration that the claim is not resisted.

(K.B.; (1931) L.J.N., 121.)

REVENUE.

Hillerns & Fowler v. Murray.

Evidence of Trading.

Where in any appeal under the Income Tax Acts the question is material whether any person or firm was or was not trading during a given period, it is the duty of the Special Commissioners to find in terms whether such person was or was not trading, and a finding that the sum on which an assessment has been made constituted "trading receipts" is not sufficient. The term "trading receipts" is wide enough to cover receipts of payments after trading has ceased as the result of contracts entered into previously, but such receipts would not be assessable to income tax.

A firm dissolved partnership at a certain date; thereafter nothing was done except to take delivery of stock previously bought, and apply it in fulfilment of orders previously booked.

It was held that there was no evidence of the firm having continued to trade after the date of dissolution, and that the profits of these contracts were not assessable under Schedule D.

(K.B.; (1931) 47 T.L.R., 553.)

Bennett v. Ogston.

Instalments on Moneylenders' Promissory Notes.

A moneylender made loans on promissory notes which provided for payment to him of monthly or more frequent instalments. Up to the date of his death he was assessed to income tax under Case I, Schedule D, in respect of the profits of this business, all instalments due and paid prior to his death being brought into the relative computations. Instalments falling due after his death were collected by the administrator of his estate, but it was not suggested that the administrator was at any time carrying on any trade.

Assessments to income tax were made on the administrator on the basis that so much of the instalments collected by him as did not represent repayment of capital was "interest of money" within the meaning of Rule 1, Case III, Schedule D. The administrator contended that the sums in question were not assessable as "interest of money" within the Income Tax Act.

Rowlatt (J.) held that the sums in question were "interest" assessable under Case III.

(K.B.; (1931) 15 T.C., 374.)

Davies v. Braithwaite.

Meaning of "Employment."

In Schedule D of the Income Tax Acts the word "employment" means the way in which a man employs himself. But in Schedule E it means something analogous to an office, and when one finds a form of earning a livelihood which does not consist in obtaining a post and staying in it, but in making contracts—obtaining one after another—then, whether the terms of the particular contracts may be construed as creating the relation of master and servant or not, these engagements do not constitute "employment" within Schedule E, but come within Schedule D.

(1931, 47 T.L.R., 479.)